

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3383
February 10, 1988

RESOLUTION

(Res. W-3383) LEWISTON SEWER SYSTEM (LSS). ORDER AUTHORIZING
A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE
OF \$1,500 OR 200% IN 1988 AND \$750 OR 33.3% IN 1989.

LSS, 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 sewer service by \$750 or 100% in 1987, \$750 or 50% in 1988, and \$750 or 33% in 1989. LSS estimates that although 1987 gross revenues of \$750 at present rates would increase to \$1,500 at proposed rates in test year 1987, from \$1,500 to \$2,250 in 1988, and from \$2,250 to \$3,000 in 1989 it would continue to operate at a loss (see later discussion on this). LSS serves 25 customers adjacent to the community of Lewiston, Trinity County. The Branch is concurrently processing an advice letter general rate increase for Lewiston Water Works, a water 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 LSS was declared a public utility in Decision (D.) 85492 dated March 2, 1976.

The Branch made an independent analysis of LSS's summary of earnings. Appendix A shows LSS'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 difference in estimates for expenses are in purchased power, payroll, materials, vehicle expense, rent and depreciation.

The Branch's estimate of purchased power is \$530; LSS's estimate is \$380. The difference is due to the Branch's use of the latest power rates and a transposition error discovered in LSS's workpapers.

The Branch estimate of \$1,465 for payroll is higher than LSS's \$1,200. It is based on the Branch's estimate of time required by a manager-operator to periodically inspect the facilities, make minor repairs, make operational adjustments and tests, service customer accounts and take care of other miscellaneous details. LSS made its estimate in a similar manner but included an amount for the owners' supervision and considered vehicle expenses as part of the manager-operator's pay. The Branch estimate did not include amounts for the owners' supervision or vehicle expenses. The Branch believes that the

company is too small to include payroll consideration for other than an owner-operator. As discussed later, the Branch reallocated vehicle expenses to the vehicle expense account.

The Branch's estimate for materials of \$260 is higher than LSS's estimate of \$110. In addition to an added amount for materials, the Branch also included an amount for small tools in its estimate.

LSS's estimate of operating expenses did not include an amount for vehicle expense. As discussed previously, 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 \$255 for each year and separated it from payroll.

LSS did not include an amount for rent. The Branch's \$300 estimate is based on the general level of rental expenses of other similarly situated utilities. That level was determined considering that both LSS and its affiliated water utility operate from office spaces dedicated primarily to their owners' other business interests.

The Branch's expense estimate for depreciation expense is higher than LSS's because the Branch corrected errors in historical plant and reserve records. 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 the fact that major components of the system are in poor condition and approaching the end of their usefulness. LSS used the old depreciation accrual rate of 2.9% while the Branch used the new rate of 3.85%.

The Branch recommends that LSS be ordered to use the new 3.85% 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 LSS and its affiliated water 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, LSS has chosen to limit its request to a \$2.50 monthly increase per customer in each test year. According to the owners' consultant, LSS'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 LSS'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, even though those estimates were significantly higher than proposed by LSS.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in LSS's annual reports, the Branch recommends that LSS 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, \$31,662 as of December 31, 1986; and depreciation reserve, \$16,592 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 LSS.

LSS 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 acknowledged that service was good.

A field investigation of LSS was made on August 24 and 25, 1987. Visible portions of the sewer system were inspected, the operator was interviewed and methods of operation were reviewed. The investigation indicates that service is good. There are no outstanding Commission orders requiring system improvements.

LSS 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 \$2.50 to \$7.50, an increase of 200%. This large percentage increase is due to the fact that the \$5.00 rate proposed by LSS 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 LSS'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 increases to be justified.

The Branch recommends that the Commission authorize an increase of \$1,500 or 200% for 1988 which would increase estimated annual operating revenue from \$750 at present rates to \$2,250 at proposed rates, and \$750 or 33.3% for 1989 which would increase estimated annual operating revenue to \$3,000 for that year. This will result in LSS 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 Sewer System 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. LSS should use a 3.85% composite depreciation rate until a future depreciation study reviewed by the Branch indicates that a revision is warranted.
5. LSS 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, \$31,662 as of December 31, 1986; and depreciation reserve, \$16,592 as of December 31, 1986.


IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Lewiston Sewer System 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 Sewer System shall use a 3.85% composite depreciation rate until a future depreciation study reviewed by the Water Utilities Branch indicates that a revision is warranted.
3. Lewiston Sewer System 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 Sewer System's 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 SEWER SYSTEM

SUMMARY OF EARNINGS

	Present Rates	Utility Estimated			Branch Estimated & Adopted:		
		Proposed Rates			Test Years		
		1987	1987	1988	1989	1987	1988
OPERATING REVENUES							
Flat Rate	\$ 750	\$1,500	\$2,250	\$3,000	\$1,500	\$2,250	\$3,000
OPERATING EXPENSES							
Purchased Power	380	380	380	380	530	530	530
Payroll	1,200	1,200	1,200	1,200	1,465	1,465	1,465
Materials	110	110	110	110	260	260	260
Contract Work	235	235	235	235	235	235	235
Office Supplies	100	100	100	100	100	100	100
Accounting & Legal	200	200	200	200	200	200	200
General Expense	565	565	565	565	565	565	565
Vehicle Expense	0	0	0	0	255	255	255
Rent	0	0	0	0	300	300	300
Subtotal	2,790	2,790	2,790	2,790	3,910	3,910	3,910
Deprec. Expense	655	655	680	680	1,035	1,035	1,035
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	655	655	680	680	1,035	1,035	1,035
Total Deductions	3,445	3,445	3,470	3,470	4,945	4,945	4,945
NET REVENUE	(2,695)	(1,945)	(1,220)	(470)	(3,445)	(2,695)	(1,945)
RATE BASE							
Avg. Plt in Serv.	8,940	8,940	9,700	10,000	31,187	30,712	30,712
Avg. Depr. Res.	6,240	6,240	6,900	7,600	17,111	18,148	19,185
Net Plant	2,700	2,700	2,800	2,400	14,076	12,564	11,527
Less: Advances	0	0	0	0	0	0	0
Contribtns	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 ¹	0	0	0	0	675	2,528	1,511
RATE BASE	2,700	2,700	2,800	2,400	13,401	10,036	10,016
RATE OF RETURN	Loss	Loss	Loss	Loss	Loss	Loss	Loss
¹ Lewiston Water Works Rate Base					46,599	49,964	49,984
Total Rate Base per D.86-05-075					60,000	60,000	60,000

APPENDIX B

Schedule No. 1SS
GENERAL SERVICE

APPLICABILITY

Applicable to General Sewer 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,	\$7.50	\$10.00	(I)

SPECIAL CONDITION

The above rates apply to service connections not larger than four inches in diameter.

APPENDIX C
COMPARISON OF RATES

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

	<u>Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
Per Connection	\$ 2.50	<u>Effective 1988</u>	200
		<u>Effective 1989</u>	
		\$10.00	33.3

APPENDIX D

Page 1

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

Name of Company: Lewiston Sewer System

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)

Pacific Gas and Electric Company

Total Cost (\$)	\$ 530
Rate Schedule	A-1
Eff. Sch. Date	4/1/87
kWh used	5837
\$/kWh used	0.10006 (summer)
	0.08289 (winter)
	.091 (avg)

2. Payroll:	\$1,465
3. Payroll Taxes:	None
4. Ad Valorem Taxes:	None

Service Connections

Flat Rate 25

APPENDIX D

Page 2

ADOPTED TAX CALCULATIONS

Line No.	Item	1987	
		Adopted Rates	
		<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$ 1,500	\$ 1,500
2.	O & M Expenses	3,910	3,910
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	1,035	1,035
5.	State Income Tax	-	0
6.	Sub-total Deduction	4,945	4,945
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	\$ 2,250	\$ 2,250
2.	O & M Expenses	3,910	3,910
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	1,035	1,035
5.	State Income Tax	-	0
6.	Sub-total Deduction	4,945	4,945
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
Page 3

ADOPTED TAX CALCULATIONS

Line No.	Item	1989 Adopted Rates	
		OCFT	FIT
1.	Operating Revenues	\$ 3,000	\$ 3,000
2.	O & M Expenses	3,910	3,910
3.	Taxes Other Than Income	0	0
4.	Tax Depreciation	1,035	1,035
5.	State Income Tax	-	0
6.	Sub-total Deduction	4,945	4,945
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