

W-1

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3384
February 24, 1988

R E S O L U T I O N

(Res. W-3384) VISTA GRANDE WATER SYSTEM (VGWS), ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$5,206
OR 45.0% ADDITIONAL ANNUAL REVENUE.

VGWS, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 15, 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 \$5,267 or 45.0%. After removing the effects of user fee surcharges, which are not considered for ratemaking, VGWS's estimates show that 1988 gross revenue of \$11,488 at present rates would increase to \$16,716 at proposed rates which would produce a rate of return on rate base of 9.16%. VGWS serves 112 metered customers in the Pulliam Subdivision, 2 miles northeast of Red Bluff, Tehama County, and is one of three water utilities in the area under common ownership and management. The Branch is concurrently processing a draft advice letter general rate increase request for Las Flores Water Works. The third, Mira Monte Water System, has not requested an increase.

The present rates were established by Resolution No. W-2383, effective June 1, 1978 which authorized a general rate increase.

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

The Branch's estimate of revenue at present and proposed rates is slightly higher than VGWS's. VGWS used its 1986 recorded revenue as its estimate of 1988 revenue at present rates, and increased that figure by 45% for its revenue at proposed rates. The Branch derived a figure more consistent with expected 1988 customers and consumption by applying the present and proposed rates to its projected estimates for those items. VGWS's figures shown in Appendix A have also been adjusted to remove the user fee surcharges it had initially included in both revenue and expenses.

The differences in estimates for operating expenses are in purchased power, employee labor, materials, office supplies and expense, insurance, professional services, vehicle expense, maintenance expense, depreciation expense, payroll tax and income tax. For many of its expense estimates, VGWS used its recorded 1986 expense increased by differing arbitrary inflation factors. Since the recorded figure for one year may not be representative of the level of an

expense in other years, the Branch used a four-year average for most of its estimates.

The Branch's estimate of purchased power expense is lower than VGWS's. VGWS projected an increase of 10% over 1986 for 1988 but had no explanation for the derivation of the 10% escalation factor. The Branch used the projected water consumption for 1988, and the latest available Pacific Gas and Electric Company rates effective July 1, 1987 in deriving its estimate. The Commission's procedures allow water utilities to seek rate relief to offset increased costs arising from increased power rates between general rate cases.

The Branch's estimate of employee labor is higher than VGWS's. One employee reads meters for all three affiliated water systems and the cost is allocated equally among the companies without regard to the time required. For ratemaking, the Branch re-estimated VGWS's share using information provided by VGWS on the number of meters read per hour and the hourly pay rate.

VGWS estimated 1988 materials expense by increasing its 1986 recorded figures by an arbitrary 8.5% inflation factor without further justification. The Branch used the inflation-adjusted average of VGWS's last four years' recorded amounts. The Branch's escalation factors for this and other items were those provided by the Advisory Branch of the Commission Advisory and Compliance Division.

The Branch's estimate of office supplies and expense is higher than VGWS's. No justification was provided by VGWS for its estimate other than it used an inflation adjustment of 11% over the 1986 level for 1988. The Branch used an inflation-adjusted four-year recorded average and added an amount for telephone bills, which VGWS had misclassified as general expense and had not included for ratemaking.

The Branch's estimate of insurance is higher than VGWS's. VGWS's estimate is based on 1987 premiums and an assumption that one-half of the master policy related to the owner's home and one-quarter each to two of the three companies. The Branch's estimate is also based on 1987 premiums but the Branch allocated the portion of the premium applicable to the owner's house based on the previous year's recorded allocations (done by the insurance company) and assigned one-third of the remainder to each water company.

The Branch's estimate of professional services is lower than VGWS's. VGWS made its estimate by increasing 1986 recorded values by 23%. No further justification was provided. The Branch derived its estimate by taking the inflation-adjusted average of the last four years' recorded amounts.

The Branch's estimate of vehicle expense is lower than VGWS's. The Branch agrees with VGWS's estimate of annual vehicle mileage, but differs on the appropriate cost per mile. VGWS used \$0.30 per mile while the Branch used \$0.21, the rate currently allowed by the Internal Revenue Service. VGWS provided no support for its cost per mile figure. VGWS also requested an additional \$100 for vehicle licenses, but the Branch's \$0.21 per mile rate already compensates for vehicle license payments.

The Branch's estimate of maintenance expense is lower than VGWS's. VGWS requests \$150 for maintenance expense, but since it typically contracts for its plant maintenance the Branch has accounted for that amount in the contract work estimate.

The Branch's estimate of depreciation expense is slightly lower than VGWS's because VGWS inadvertently calculated depreciation on land. VGWS made this and other errors in calculating its depreciation expense and reserve in prior years, and used its end-of-year 1987 reserve figure as its 1988 average. The Branch went back to VGWS's last general rate increase in 1978 to correct the annual depreciation accruals since that time and derive a new depreciation reserve figure. Both the Branch and VGWS used a 2.2% depreciation rate.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in VGWS's annual reports, the Branch recommends that VGWS be directed to record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and to reflect that balance in its 1987 annual report to the Commission. That balance is \$22,130 as of December 31, 1986.

VGWS did not include payroll taxes in its estimate. The Branch computed payroll taxes based on its total estimated payroll.

VGWS did not include income taxes in its estimate. The Branch's figures for income taxes reflect the current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1988.

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

The Branch's estimate of average depreciation reserve is higher than VGWS's for the reasons discussed under depreciation expense above.

VGWS did not include an amount for working cash. The Branch used the simplified method for a water utility using monthly metered billing as prescribed by the Commission's Standard Practice U-16, "Determination of Working Cash Allowance" to arrive at its estimate of \$1,590.

VGWS's initial draft advice letter requested a rate of return on rate base of 8.6%. After recasting it into the standard rate-making format of Appendix A, VGWS's proposed summary of earnings shows a rate of return of 9.16%. The Branch's recommended summary of earnings would produce a rate of return of 7.90% at the Branch's recommended rates. This rate of return, although lower than the 10.25% to 10.75% rate of return range recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small water utilities with 100% equity financing, results in VGWS being granted the total revenue percentage increase requested. 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 VGWS.

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

A notice of the proposed rate increase and public meeting was mailed to each customer on September 16, 1987. No letters of protest were received by the Branch.

On September 29, 1987, a public meeting attended by three people was held in Red Bluff with representatives of the Branch and VGWS to explain the increase request and answer customers' questions. The customers' complaints were directed primarily towards the size of the rate increase.

A Branch engineer conducted a field investigation of VGWS's service area on September 30, 1987. Visible portions of the system were inspected, pressures checked, and company records researched. The investigation revealed that service is satisfactory. No water supply or water quality problems were found. The Tehama County Department of Environmental Health was contacted and confirmed there are no water quality problems.

VGWS has two wells in good condition and an abundant ground water supply. Its system is fully metered. No additional conservation measures are needed.

VGWS's current rates consist of a metered rate schedule with a service charge which recovers revenues equivalent to 45% of its fixed costs, a lifeline block of 300 cubic feet per month, and a block for consumption over 300 cubic feet. The Branch recommends a service charge which recovers 50% of fixed costs, 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 which calls for phasing out lifeline rates, allows for reduction of multiple blocks to a single block and recovery of up to 50% of fixed expenses through the service charge.

At the Branch's recommended rates shown in Appendix A, the monthly bill for a typical metered rate customer using the system average of 2,100 cubic feet per month would increase from \$8.46 to \$12.51 (47.9%) per month. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$5,206 or 45.0% which would increase estimated annual operating revenue from \$11,570 at present rates to \$16,776 at the recommended rates contained in Appendix B. This provides a 7.90% rate of return on rate base in test year 1988 and results in VGWS's being granted the full percentage revenue increase it requested.

FINDINGS

1. The Branch's 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 adopted.

3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. VGWS should be required to record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and to reflect that balance in its 1987 annual report to the Commission. That balance is \$22,130 as of December 31, 1986.
5. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Vista Grande Water 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 No. 1. Such filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be the date of filing.
2. For the purpose of earnings tests in any future offset rate increase requests for Vista Grande Water System, a rate of return on rate base not exceeding 10.50% shall be considered reasonable.
3. Vista Grande Water System shall record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and shall reflect that balance in its 1987 annual report to the Commission.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 24, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
JOHN B. OHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

APPENDIX A

Vista Grande Water System

SUMMARY OF EARNINGS
(Test Year 1988)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat	0	0	0	0	0
Metered	\$11,488	\$16,716	\$11,570	\$16,739	\$16,776
Total	<u>11,488</u>	<u>16,716</u>	<u>11,570</u>	<u>16,739</u>	<u>16,776</u>
<u>Operating Expenses</u>					
Purchased Power	2,697	2,697	2,500	2,500	2,500
Employee Labor	275	275	360	360	360
Management Salaries	5,040	5,040	5,040	5,040	5,040
Materials	675	675	410	410	410
Contract Work	400	400	400	400	400
Office Suppls & Exp.	500	500	590	590	590
Insurance	140	140	200	200	200
Professional Svcs.	535	535	260	260	260
Vehicle Expenses	1,200	1,200	840	840	840
Office Svcs & Rntl	400	400	400	400	400
General Expense	0	0	0	0	0
Uncollectibles	90	90	90	90	90
Maintenance Expense	150	150	0	0	0
Reg. Comm. Exp.	0	0	0	0	0
Subtotal	<u>12,102</u>	<u>12,102</u>	<u>11,090</u>	<u>11,090</u>	<u>10,090</u>
Depreciation	1,173	1,173	1,140	1,140	1,140
Property Taxes	719	719	719	719	719
Payroll Taxes	0	0	641	641	641
Income Taxes	0	0	0	721	730
Total Deductions	<u>13,994</u>	<u>13,994</u>	<u>13,590</u>	<u>14,311</u>	<u>14,320</u>
Net Revenue	(2,506)	2,722	(2,020)	2,428	2,456
<u>Rate Base</u>					
Avg. Plant in Svc.	53,330	53,330	53,330	53,330	53,330
Avg. Depr. Res.	23,600	23,600	23,840	23,840	23,840
Net Plant	29,730	29,730	29,490	29,490	29,490
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	0	0	1,590	1,590	1,590
Mat'l & Supp.	0	0	0	0	0
Rate Base	29,730	29,730	31,080	31,080	31,080
Rate of Return	(Loss)	9.16%	(Loss)	7.31%	7.90%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Vista Grande Subdivision and vicinity, located approximately two miles northeast of the City of Red Bluff, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:*	
For 5/8 x 3/4-inch meter.....	\$ 4.95 (I)
For 3/4-inch meter.....	5.45
For 1-inch meter.....	7.45
For 1-1/2-inch meter.....	9.90 (I)
Quantity Charge:	
All water, per 100 cu.ft.....	\$ 0.36 (I)

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

APPENDIX C

Vista Grande Water System

COMPARISON OF RATES

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

METERED SERVICE

Service Charge:

	Per Meter Per Month		
	Present Rates	Recommended Rates	Percent Increase
For 5/8 x 3/4-inch meter.....	\$ 3.00	\$ 4.95	65.0
For 3/4-inch meter.....	3.30	5.45	65.2
For 1-inch meter.....	4.50	7.45	65.6
For 1-1/2-inch meter.....	6.00	9.90	65.0

Quantity Rates:

	Present Rates	Recommended Rates	Percent Increase
First 300 cu.ft.; per 100 cu.ft....	\$ 0.20	\$ 0.36	80.0
Over 300 cu.ft., per 100 cu.ft....	0.27	0.36	33.3

A comparison of monthly customer bills at present and Branch's recommended rates for 1988 test year for a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu.ft.	Present Rates	Recommended Rates	Amount Increase	Percent Increase
0	\$ 3.00	\$ 4.95	\$ 1.95	65.0
3	3.60	6.03	2.43	67.5
5	4.14	6.75	2.61	63.0
10	5.49	8.55	3.06	55.7
15	6.84	10.35	3.51	51.3
20	8.19	12.15	3.96	48.4
21 (Average)	8.46	12.51	4.05	47.9
30	10.89	15.75	4.86	44.6
40	13.59	19.35	5.76	42.4
50	16.29	22.95	6.66	40.9

APPENDIX D

Page 1

ADOPTED QUANTITIES
(Test Year 1988)

Name of Company: Vista Grande Water System
 Net-to-Gross Multiplier: N/A
 Federal Tax Rate: 15.0%
 State Tax Rate: 9.3%
 Local Franchise Tax: 0.0%
 Uncollectibles: 0.5%
 Business Licenses: 0.0%

Expenses for Test Year 1988

1. Purchased Power

Electric:

Pacific Gas & Electric Company

Schedule & Effective Date

kWh Used - Summer

kWh Used - Winter

kWh Used Total

\$/kWh Used: Summer

\$/kWh Used: Winter

Service Charge

Total Cost

A-1P:7/87

16,520

8,136

24,656

0.10096

0.08297

\$ 144

\$ 2,500

2. Purchased Water

None

3. Pump Tax - Replenishment Tax

None

4. Payroll :

Employee Labor:

Management Salaries:

Office Salaries:

Total

\$ 360

\$ 5,040

\$ 0

\$ 5,400

Payroll Taxes:

\$ 641

5. Ad Valorem Taxes

Tax Rate

Assessed Value

\$ 719

1.07%

\$ 67,222

Metered Sales to Design Rates

0 - 3 Ccf

> 3 Ccf

Total

4,032

25,308

28,340

Connections Used to Design Rates

Metered

5/8 x 3/4-inch

3/4-inch

Flat

Total

110

2

0

112

APPENDIX D
Page 2

ADOPTED QUANTITIES

<u>Item</u>	<u>OCFT</u>	<u>FIT</u>
Operating Revenues	\$16,776	\$16,776
O&M Expenses	11,090	11,090
Taxes Other Than Income	1,360	1,360
Depreciation	1,140	1,140
Interest	0	0
OCFT	0	296
Subtotal Deductions	13,590	13,886
State Taxable Income	3,186	-
OCFT at 9.3%	296	-
Taxable Income for FIT	-	2,890
FIT at 15%	-	434
Total Income Tax	-	730