

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3386
February 24, 1988

R E S O L U T I O N

(RES. W-3386) BUHL WATER COMPANY (BWC), ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$3,358 OR 14.0% ADDITIONAL ANNUAL REVENUE.

BWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on June 25, 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 \$3,932 or 16.3%. BWC estimates that 1987 gross revenue of \$24,078 at present rates would increase to \$28,010 at proposed rates and would produce a rate of return of 10.50% on rate base. BWC, Nish, EPTCO Visalia, EPTCO Porterville and Pleasant Grove are all small water utilities under common ownership and operation serving a total of 965 customers in the Porterville and Visalia area, Tulare County. All five utilities have requested general rate increases. BWC serves about 205 flat rate customers about three miles southwest of Visalia.

The present rates have been in effect since March 11, 1983 pursuant to Resolution No. W-3076, dated February 2, 1983, which authorized a general rate increase.

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

The differences in estimated expenses are in purchased power, contract work, transportation, office supplies and expense, management salary, employee pensions and benefits, professional services, insurance, general expenses, payroll taxes and income taxes.

The Branch's estimate for purchased power is slightly higher than BWC's. BWC used its 1986 recorded electric power billings as its 1987 estimate. The Branch accepted BWC's position that its 1987 energy usage would be the same as 1986, but adjusted for 1987's lower energy rates, and corrected for the effects of several small one-time out-of-period credits and minor mathematical errors.

The Branch's estimate for contract work is significantly higher than BWC's. BWC estimated the test year by averaging the last three years' recorded expenses. The Branch started with the same three years' average but also adjusted for inflation and customer growth. The Branch then estimated an additional amount for required water testing that BWC had not accounted for. The escalation factors used by the Branch for this and other accounts were those provided by the Advisory Branch of the Commission Advisory and Compliance Division. BWC's owner has been operating these small water companies since

about 1984, so the Branch agreed that the three year period he selected for averaging in most accounts best represents his current mode of operations.

Both BWC and the Branch estimated a number of the remaining expenses explained below for the five commonly-operated utilities as one and apportioned them on the basis of customers. There were only minor differences in the resulting allocation factors between BWC and the Branch.

For transportation expense, BWC estimated 24,000 miles at \$0.27 per mile for the five utilities, then allocated the total among them. The Branch accepted the mileage estimate, but used \$0.21 per mile, the rate currently allowed by the Internal Revenue Service for business mileage. BWC offered no support for its \$0.27 per mile figure.

BWC's estimate of office supplies and expense used the average of the last three years' recorded expense. The Branch used the same three years' data but separated out the 1986 purchase of two years worth of bulk computer supplies from all five utilities' estimates, spread it over two years, and then apportioned it back to the utilities using the allocation factors discussed earlier. The Branch's slightly lower estimate results from this treatment of computer supplies and the Branch's use of escalation and growth factors in its average.

BWC's owner does all of the office, field and management work for all five utilities. The Branch accepted his total management salary estimate; the minor difference shown is due only to the slightly differing allocation factors used by the Branch.

The Branch agrees with BWC's total estimate for pension and benefits, but disagrees with the way it was spread. The allocation factors were used to apportion all but \$100 of the total to the five utilities, then the \$100 was assigned to BWC only without apparent justification. The Branch believes that it would be more appropriate to distribute the total pension and benefits among the utilities in the same manner as payroll.

The Branch's \$1,650 estimate of professional services is significantly lower than BWC's. BWC estimated \$3,216 by averaging the last three years' recorded expense and adding \$2,000 for consulting fees charged for this rate case. The Branch did not consider 1984 expenses because in that year two accountants were employed on a one-time only basis to help the utility switch over to computer operation and to set up office facilities to handle all five water utilities. These costs are not likely to reoccur in the near future. The Branch therefore used the average 1985 and 1986 recorded costs adjusted for inflation and growth, and amortized the consultant's estimated rate case fee over three years, the minimum period between rate cases.

The Branch's estimate of insurance expense allocated to BWC is slightly higher than BWC's because the Branch included \$100 for the cost of a bond required by Tulare County to operate the five utilities. BWC had included its share of the \$3,611 for the 1987 liability premium which had already been paid for all five utilities, but not the cost of the bond.

The Branch's estimate of general expense is lower than BWC's. BWC estimated \$368 by averaging its last three years' recorded general expense. The Branch arrived at its \$90 estimate by conducting an item by item review of the total recorded expenses of all five utilities, excluding those items clearly not necessary to their operation, averaging the last three years' figures adjusted for inflation and growth, and apportioning the resulting amounts to each utility.

BWC inadvertently did not estimate payroll taxes. The Branch used the standard payroll tax rates applied to the payroll for all five utilities and apportioned the total as described earlier to arrive at its \$640 result for BWC.

The Branch's estimates of income taxes are higher than BWC's. BWC stated that a 26% composite state and federal tax rate had been assumed, but had no workpapers to support its estimate. The Branch calculated federal income taxes using rates consistent with the 1986 Tax Reform Act and calculated state income tax at the revised California income tax rate for 1987.

The differences between BWC and the Branch in rate base are in utility plant, depreciation reserve and working cash.

BWC used its average 1986 utility plant of \$60,616 for its 1987 estimate. The Branch's higher estimate of \$64,820 for 1987 average plant is the 1986 end-of-year recorded figure which reflects all additions made during 1986 rather than only half. There were no additions planned or recorded for 1987.

Similarly, BWC used its average 1986 depreciation reserve of \$39,532 for test year 1987. The Branch's average 1987 figure of \$41,180 is better because it reflects the additional depreciation accrued from mid-1986 to mid-1987.

BWC calculated its \$1,000 working cash figure as one-fifth of an arbitrary \$5,000 lump sum estimated for all five utilities together. The Branch used the simplified method for an individual water utility using monthly flat rate billing as prescribed in the Commission's Standard Practice U-16, "Determination of Working Cash Allowance" to arrive at its estimate of \$1,360.

BWC was informed of the Branch's differing views of expenses and rate base and has stated that it accepts the Branch's estimates.

BWC has requested a rate of return of 10.50% on rate base, and the Water Branch concurs. This is the midpoint of the 10.25% to 10.75% standard rate of return range recommended by the Accounting and Financial Branch of Commission Advisory and Compliance Division for small 100% equity water utilities.

Unlike three of its affiliates, BWC has not been ordered to establish a balancing account, and it has never done so.

A notice of the proposed rate increase and public meeting was mailed to all customers on July 14, 1987. One letter was received from the City of Visalia Fire Department protesting having to pay for public fire hydrant service. BWC has been billing the City in accordance with tariff Schedule No. 5, Public Fire Hydrant Service. Since Public Utilities Code Section 2713 prohibits a charge for fire hydrant service except pursuant to a written agreement with the entity

providing fire protection, BWC proposes to cancel its tariff Schedule No. 5. The Branch concurs.

An engineer from the Branch and two representatives of BWC were available at a public meeting to explain the increase request and answer questions in Visalia on the evening of July 27, 1987. No customers attended.

A field investigation of BWC's system was made by a Branch engineer on August 18 and 19, 1987. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. Although service is satisfactory, the investigation revealed that no production meters have been installed at the two wells serving BWC's system as required by General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." BWC contends that its electric meters can be used as measuring devices by applying a factor for water production per kilowatt hour (kWh) consumed. While this method might be used to roughly approximate usage, declining efficiency of the pumps over time, variations in well water levels and other variables make it unsuitable for the requirements of G.O. 103. With separate water production measuring devices, water production can be compared with kWh consumed to detect any decline in pump efficiency before service is affected.

According to the Tulare County Department of Health Services, BWC's water meets all state quality standards. Its two wells provide an ample, reliable supply and its distribution system is in good condition. Additional water conservation measures are not needed at this time.

BWC's present rates consist of a metered rate schedule, a residential flat rate schedule and a public fire hydrant schedule. The Branch proposes to increase the flat rate schedule by the system average increase authorized by this resolution and eliminate the fire hydrant schedule as discussed earlier.

BWC currently has no metered customers and has no plans to install meters in the immediate future. However, its tariffs give it the option to convert customers to meters, so the Branch has prepared a revised metered rate schedule.

BWC's present metered rate schedule consists of a service charge, a lifeline block of 300 cubic feet per month, and a block for consumption over 300 cubic feet. The Branch proposes to revise the schedule to include a service charge which would recover revenue in proportion to 50% of BWC'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 recovery of up to 50% of fixed expenses through the service charge.

The level of the proposed metered rate schedule is such that the average customer's charges would be the same under it as under the flat rate schedule. The resulting rates on the redesigned metered rate schedule are lower than those on the present schedule, the derivation of which has been lost over the years. Since there are no customers, however, neither the utility's revenues nor customers' bills are affected by this realignment.

The Branch recommends that the Commission authorize an increase in gross revenue of \$3,358 or 14.0%. This increase provides a 10.50% estimated rate of return on rate base in test year 1987.

At the recommended rates shown in Appendix B, the monthly bill for a typical flat rate residential customer would increase from \$9.55 to \$10.90 or 14.1%. A comparison of the present and recommended rates is shown in Appendix C.

FINDINGS

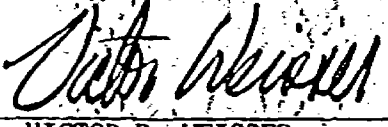
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
4. BWC should be ordered to comply with General Order 103 by installing a suitable measuring device or otherwise determining production at each source of supply. BWC should be allowed to file an advice letter to begin recovering the reasonable cost of such installations after they have been put into operation.
5. Tariff Schedule No. 5, Public Fire Protection, should be cancelled.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Buhl 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 its presently effective rate Schedules Nos. 1, 2R and 5. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. Buhl Water Company shall comply with General Order 103 by installing a suitable measuring device or otherwise determining production at each source of supply within one year of the effective date of this resolution. Buhl Water Company is authorized to file an advice letter to begin recovering the reasonable cost of its installations after they have been put into operation.
3. 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. WEISSNER
Executive Director

APPENDIX A

Buhl Water Company

SUMMARY OF EARNINGS
(Test Year 1987)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	0	0	0	0	0
Flat Rate	\$24,078	\$28,010	\$24,078	\$28,010	\$27,436
Total	\$24,078	\$28,010	\$24,078	\$28,010	\$27,436
Operating Expenses					
Purchased Power	4,557	4,557	4,570	4,570	4,570
Materials	592	592	592	592	592
Contract Work	226	226	830	830	830
Transportation	1,369	1,369	1,070	1,070	1,070
Other Pl. Maint.	117	117	117	117	117
Office Salaries	0	0	0	0	0
Off. Suppls. & Exps.	1,477	1,477	1,420	1,420	1,420
Mgmt. Salaries	8,454	8,454	8,480	8,480	8,480
Empl. Pens. & Ben.	293	393	320	320	320
Uncollectibles	76	76	76	76	76
Off. Serv. & Rent	888	888	888	888	888
Prof. Serv.	3,216	3,216	1,650	1,650	1,650
Insurance	763	763	790	790	790
General Expense	368	368	90	90	90
Subtotal	22,396	22,496	20,893	20,893	20,893
Depreciation	1,842	1,842	1,842	1,842	1,842
Property Taxes	642	642	642	642	642
Payroll Taxes	0	0	640	640	640
Income Taxes	0	700	14	914	783
Total Deductions	24,880	25,680	24,031	24,931	24,800
Net Revenue	(802)	2,330	47	3,079	2,636
Rate Base					
Avg. Plant	60,616	60,616	64,820	64,820	64,820
Avg. Depr. Res.	39,532	39,532	41,180	41,180	41,180
Net Plant	21,084	21,084	23,640	23,640	23,640
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,000	1,000	1,360	1,360	1,360
Mat'l & Supp.	100	100	100	100	100
Rate Base	22,184	22,184	25,100	25,100	25,100
Rate of Return	Loss	10.50%	0.19%	12.27%	10.50%

APPENDIX B
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 249, and vicinity, approximately 3 miles southwest of the City of Visalia, Tulare County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
All water, per 100 cu.ft.....	\$.26 (R)
Service Charge:	
For 5/8 x 3/4-inch meter.....	4.50 (R)
For 3/4-inch meter.....	6.00
For 1-inch meter.....	9.00
For 1-1/2-inch meter.....	12.00
For 2-inch meter.....	17.50 (R)

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 Rates, for water used during the month.

APPENDIX B

Page 2

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Tract No. 249, and vicinity, approximately 3 miles southwest of the City of Visalia, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>	
For each single-family residential unit including premises not exceeding 11,000 sq. ft. in area.....	\$10.90	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	4.45	(I)
b. For each 100 sq.ft. of premises in excess of 11,000 sq.ft.....	0.08	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

APPENDIX C

COMPARISON OF RATES

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

	<u>Per Meter/Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
<u>METERED SERVICE 1/</u>			
Quantity Rates:			
First 300 cu.ft. or less.....	\$ 0.40	\$ 0.26	(35.0%)
Over 300 cu.ft., per 100 cu.ft..	0.55	0.26	(57.7%)
Service Charge:			
For 5/8 x 3/4-inch meter.....	5.00	4.50	(10.0%)
For 3/4-inch meter.....	6.70	6.00	(10.4%)
For 1-inch meter.....	10.00	9.00	(10.0%)
For 1-1/2-inch meter.....	13.50	12.00	(11.1%)
For 2-inch meter.....	19.50	17.50	(10.3%)

RESIDENTIAL FLAT RATE SERVICE

RATES

For each single-family residential unit including premises not exceeding 11,000 sq.ft. in area.....	\$ 9.55	\$ 10.90	14.1
a. For each additional single-family residential unit on the same premises and served from the same service connection.....	3.90	4.45	14.1
b. For each 100 sq.ft. of premises in excess of 11,000 sq.ft.....	0.07	0.08	14.3

1/There are currently no customers under the metered service schedule.

APPENDIX D
Page 1

ADOPTED QUANTITIES
(Test Year 1987)

Name of Company: Buhl Water Company
 Net-to-Gross Multiplier: 1.2971
 Federal Tax Rate: 15%
 State Tax Rate: 9.3%
 Business License: None
 Uncollectibles: \$ 76

Expenses for Test Year 1987

1. Purchased Power

Electric:

Southern California Edison

Rate Schedules

Effective Date of Schedules

kWh

\$/kWh

Service/Minimum Charges

State Energy Surcharge @ \$0.0002/kWh

Total Cost

PA-1, GS-1 (demand)

1/1/87

44,270; 6,310

0.07996; 0.10254

\$360/\$240

\$10

\$4,570

2. Payroll and Employee Benefits

Payroll

Payroll Taxes

Employee Pension & Benefits

\$ 8,480

640

320

3. Ad Valorem Taxes

Tax Rate

Assessed Value

\$ 642

1.0612%

\$60,500

Service Connections

1. Metered Service

Meter Size

For 5/8 x 3/4-inch

For 3/4-inch

For 1-inch

For 1-1/2-inch

For 2-inch

Total

0

0

0

0

0

0

2. Flat Rate Service

Single family less than 11,000 sq.ft.

a. Additional Units

b. For each 100 sq.ft. over 11,000
sq.ft. (69,643 sq.ft.)

Total

168

0

37

205

APPENDIX D
Page 2

ADOPTED INCOME TAX CALCULATIONS
Test Year 1987

<u>Line No.</u>	<u>Item</u>	<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$27,436	\$27,436
2.	O&M Expense	7,179	7,179
3.	A&G Expense	13,714	13,714
4.	Taxes Other Than Income	1,282	1,282
5.	Depreciation	1,842	1,842
6.	Interest	0	0
7.	State Tax		318
8.	Total Deductions	24,017	24,335
9.	State Taxable Income	3,419	
10.	State Tax (9.3%)	318	
11.	Taxable Income for FIT		3,101
12.	FIT (15%)		465
13.	Total Income Tax		783