

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3387  
February 24, 1988

R E S O L U T I O N

(RES. W-3387) NISH WATER COMPANY (NWC). ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$9,755 OR 24.3% ADDITIONAL ANNUAL REVENUE.

NWC, 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 \$17,105 or 42.6%. NWC estimates that 1987 gross revenue of \$40,195 at present rates would increase to \$57,300 at proposed rates and would produce a rate of return of 10.50% on rate base. NWC, Buhl, EPTCO Visalia, EPTCO Porterville, and Pleasant Grove are 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. NWC serves about 384 flat rate customers about one mile north of Visalia.

The present rates have been in effect since December 1, 1981 pursuant to Resolution No. W-2908, dated December 1, 1981, which authorized a general rate increase.

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

The differences in estimated expenses are in purchased power, materials, contract work, transportation, other plant maintenance, office supplies and expenses, management salaries, employee pensions and benefits, professional services, insurance, general expenses, depreciation, payroll taxes and income taxes.

The Branch's estimate for purchased power is lower than NWC's. NWC used its 1986 recorded electric power billings as its 1987 estimate. The Branch accepted NWC's position that its 1987 energy usage would be the same as 1986 but adjusted the power rates for the fact that NWC shifted in mid-1986 from Southern California Edison's Schedule GS-1, "General Service", to PA-1, Power - Agricultural and Pumping, Connected Load Basis" which resulted in a significant savings in power costs.

The Branch's estimate for materials is lower than NWC's. NWC estimated the test year as a straight average of the last three years' recorded expenses. The Branch started with the same three years' average but first adjusted it to amortize unusual and non-recurring water main repair expenses over three years. The Branch also adjusted for inflation and customer growth. 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. NWC'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.

The Branch's estimate for contract work is significantly lower than NWC's. NWC estimated the test year by averaging the last three years' recorded expenses. The Branch found that \$2,700 in 1984, \$5,300 in 1985 and \$10,324 in 1986 were from contracts to rebuild or install plant and should have been capitalized rather than expensed. Further investigation revealed that the 1985 and 1986 amounts had been double-counted as both contract expense and plant additions. After deducting these three amounts from the recorded contract expenses, the Branch took the three year average and adjusted for inflation and customer growth. The appropriate adjustment has also been made for plant-in-service.

Both NWC 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 NWC and the Branch.

For transportation expense, NWC 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. NWC offered no support for its \$0.27 per mile figure.

The Branch's estimate of other plant maintenance is slightly higher than NWC's. NWC estimated the test year by averaging the last three years' recorded expenses. The Branch started with the same three year average but also adjusted for inflation and customer growth.

NWC'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 higher estimate results from this treatment of computer supplies and the Branch's use of escalation and growth factors in its average.

NWC'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 NWC'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 Buhl Water Company 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 \$2,320 estimate of professional services is significantly lower than NWC's. NWC estimated \$4,184 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 NWC is slightly higher than NWC's because the Branch included \$100 for the cost of a bond required by Tulare County to operate the five utilities. NWC 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 NWC's. NWC estimated \$259 by averaging its last three years' recorded general expense. The Branch arrived at its \$160 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.

The Branch's estimate of depreciation expense is slightly higher than NWC's. NWC used the recorded 1986 depreciation expense for test year 1987. The Branch estimate reflects its slightly different plant as explained in connection with contract work expense above and plant-in-service below.

NWC 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 \$1,200 result for NWC.

The Branch's estimates of income taxes are higher than NWC's. NWC 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 NWC and the Branch in rate base are in utility plant, depreciation reserve and working cash.

The Branch's estimate of \$111,280 for average plant in service is slightly higher than NWC's \$110,871. The difference reflects primarily capitalized contract work which the Branch adjusted out of the 1984 recorded expenses as explained earlier, and an offsetting \$2,000 typographical error the utility made in its workpapers.

NWC used its end-of-year 1986 depreciation reserve of \$47,602 as its test year 1987 average reserve. The Branch's average 1987 figure of \$48,570 is better because it reflects the additional depreciation accrued from the end of 1986 to mid-1987 plus depreciation on plant adjusted in the last three recorded years as discussed earlier under depreciation expense.

NWC 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 \$2,410.

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

NWC 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 the Commission Advisory and Compliance Division for small 100% equity water utilities.

By Resolution No. W-2732 dated October 22, 1980, NWC was ordered to maintain a balancing account. Resolution No. W-2908 dated December 1, 1981 ordered rates which would amortize a \$1,139 overcollection over three years. NWC did not request an adjustment in rates after three years to remove the amortization amount. Southern California Edison rates have increased significantly between December 1, 1981 and January 1, 1987. The present owner acquired NWC in 1985 and has not maintained a balancing account since that time because no records were transferred to him. The Branch's review indicates that if a balancing account had been kept, it would be undercollected. NWC is proposing to use a zero balance with this rate proceeding and begin maintaining a balancing account with its next offset rate request, and the Branch concurs.

A notice of the proposed rate increase and public meeting was mailed to all customers on July 14, 1987. One letter was received from a customer protesting the magnitude of the proposed rate increase.

An engineer from the Branch and two representatives of NWC were available at a public meeting to explain the increase request and answer questions in Visalia on the evening of July 28, 1987. Four customers attended the meeting and all four protested the magnitude of the increase. One customer complained about his water pressure. A Branch engineer later checked his pressure and found it to vary between 55 and 59 pounds per square inch, well within the limits prescribed by the Commission's General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction."

The customer who wrote in response to the public notice did not attend the public meeting. The Branch later responded by letter explaining the results of its investigation and summarizing its recommendations.

A field investigation of NWC'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 NWC's system as required by G.O. 103. NWC 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, NWC'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.

NWC's present rates consist of a metered rate schedule and a residential flat rate schedule. The Branch proposes to increase the flat rate schedule by the system average increase authorized by this resolution.

NWC 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.

NWC'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 NWC'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, and 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 much higher than those on the present schedule because the present schedule has been in effect since May 16, 1978 while flat rates were adjusted December 1, 1981. 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 \$9,755 or 24.3%. 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 \$8.02 to \$10.00 or 24.7%. 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. NWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. NWC should be allowed to file an advice letter to begin recovering the reasonable cost of such installations after they have been put into operation.


#### IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Nish 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 and 2R. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. Nish 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. Nish 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. WEISSER  
Executive Director

APPENDIX A

Nish Water Company

SUMMARY OF EARNINGS  
(Test Year 1987)

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered	0	0	0	0	0
Flat Rate	\$40,195	\$57,300	\$40,195	\$57,300	\$49,950
Total Revenue	40,195	57,300	40,195	57,300	49,950
<u>Operating Expenses</u>					
Purchased Power	8,041	8,041	7,060	7,060	7,060
Materials	1,025	1,025	810	810	810
Contract Work	6,857	6,857	1,540	1,540	1,540
Transportation	2,565	2,565	2,010	2,010	2,010
Other Plant Maint.	124	124	160	160	160
Office Salaries	0	0	0	0	0
Office Supplies & Exp	1,946	1,946	2,120	2,120	2,120
Management Salaries	15,876	15,876	15,920	15,920	15,920
Pension & Benefits	549	549	590	590	590
Uncollectibles	163	163	163	163	163
Office Serv. & Rent	1,667	1,667	1,667	1,667	1,667
Professional Services	4,184	4,184	2,320	2,320	2,320
Insurance	1,433	1,433	1,480	1,480	1,480
General Expense	259	259	160	160	160
Subtotal	44,689	44,689	36,000	36,000	36,000
Depreciation	2,872	2,872	2,940	2,940	2,940
Property Taxes	934	934	934	934	934
Payroll Taxes	0	0	1,200	1,200	1,200
Income Taxes	0	2,039	0	3,720	2,031
Total Deductions	48,495	50,534	41,074	44,794	43,105
Net Revenue	(8,300)	6,766	( 879)	12,506	6,845
<u>Rate Base</u>					
Average Plant	110,871	110,871	111,280	111,280	111,280
Average Depr. Res.	47,602	47,602	48,570	48,570	48,570
Net Plant	63,269	63,261	62,710	62,710	62,710
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,000	1,000	2,410	2,410	2,410
Mat'l & Supp.	100	100	100	100	100
Rate Base	64,369	64,369	65,220	65,220	65,220
Rate of Return	Loss	10.50%	Loss	19.18%	10.50%

APPENDIX B

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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Fairview Park, Tract 260, and vicinity, located 1 mile north of Visalia, Tulare County.

RATES

Quantity Rate:	Per Meter Per Month
All water, per 100 cu.ft.....	.31 (I)
Service Charge:	
For 5/8 x 3/4-inch meter.....	4.40 (I)
For 3/4-inch meter.....	5.80
For 1-inch meter.....	8.90
For 1 1/2-inch meter.....	15.50
For 2-inch meter.....	23.80 (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 Rate, for water used during the month.



Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Fairview Park, Tract 260, and vicinity. Located 1 mile north of Visalia, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>	
For each single-family residence, including premises not exceeding 8,000 sq. ft. in area.....	\$10.00	(I)
For each additional 100 sq.ft. of premises in excess of 8,000 sq.ft.....	0.068	(I)

SPECIAL CONDITIONS

1. The above residential flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter 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

COMPARISON OF RATES

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

Per Meter/Service Connection Per Month  
Present Rates    Recommended Rates    Percent Increase

METERED SERVICE (1)

Quantity Rates:

First 300 cu.ft. or less.....	\$ 0.20	\$ 0.31	55.0%
Over 300 cu.ft., per 100 cu.ft.....	0.30	0.31	3.3%

Service Charge:

For 5/8 x 3/4-inch meter.....	3.00	4.40	46.7%
For 3/4-inch meter.....	3.90	5.80	48.7%
For 1-inch meter.....	6.00	8.90	48.3%
For 1 1/2-inch meter.....	10.50	15.50	47.6%
For 2-inch meter.....	16.00	23.80	48.8%

RESIDENTIAL FLAT RATE SERVICE

For each single-family residence,  
including premises not exceeding

8,000 sq.ft. in area.....	\$ 8.02	\$ 10.00	24.7%
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For each additional 100 sq.ft.  
of premises in excess of

8,000 sq.ft.....	0.055	0.068	23.6%
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(1) There are currently no customers under the metered service schedule.

APPENDIX D  
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ADOPTED QUANTITIES

Test Year 1987

Name of Company:	Nish Water Company	
Net-to-Gross Multiplier:		1.2971
Federal Tax Rate:		15%
State Tax Rate:		9.3%
Business License:		None
Uncollectibles:		\$ 163

Expenses for Test Year 1987

1. Purchased Power		
Electric:		
S. C. Edison		
Rate Schedule	PA-1	
Effective Date of Schedule	1/1/87	
kWh	76,100	
\$/kWh	0.07996	
Service Charge	\$ 850	
State Energy Surcharge @ \$0.0002/kWh	10	
Cost	6,940	
Natural Gas:		
SoCal Gas (Standby)	GN-21	
Effective Date of Schedule	1/21/87	
Therms	0	
\$/Therm	0.57229	
Customer Charge (P1)	\$ 120	
Cost	\$ 120	
Total Cost	\$7,060	
2. Payroll, and Employee Benefits		
Payroll	\$15,920	
Payroll Taxes	1,200	
Employee Pension & Benefits	590	
3. Ad Valorem Taxes	\$ 934	
Tax Rate	1.0612%	
Assessed Value	\$88,050	

APPENDIX D  
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Service Connections

1. Metered Service	0
2. Flat Rate Service	
Single family not exceeding 8,000 sq. ft.	134
Single family over 8,000 sq. ft. (490,800 sq. ft.)	<u>250</u>
Total	384

ADOPTED INCOME TAX CALCULATIONS

Test Year 1987

<u>Line No.</u>	<u>Item</u>	<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$49,950	\$49,950
2.	O & M Expense	11,580	11,580
3.	A & G Expense	24,420	24,420
4.	Taxes Other Than Income	2,134	2,134
5.	Depreciation	2,940	2,940
6.	Interest	0	0
7.	State Tax		825
8.	Total Deductions	41,074	41,899
9.	State Taxable Income	8,876	
10.	State Tax (9.3%)	825	
11.	Taxable Income for FIT		8,051
12.	FIT (15%)		1,206
13.	Total Income Tax		2,031