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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3388
February 24, 1988

R E S O L U T I O N

(RES. W-3388) PLEASANT GROVE WATER COMPANY, (PGWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$3,906 OR 43.8% ADDITIONAL ANNUAL REVENUE.

PGWC, 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 \$5,271 or 59.2%. PGWC estimates that 1987 gross revenue of \$8,909 at present rates would increase to \$14,180 at proposed rates and would produce a rate of return of 10.5% on rate base. PGWC, Buhl, Nish, EPTCO Visalia and EPTCO Porterville 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. PGWC serves about 102 flat rate customers in the City of Porterville.

The present rates have been in effect since December 8, 1982 pursuant to Resolution No. W-3024, dated October 6, 1982, which authorized a general rate increase.

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

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

The Branch's estimate for materials expense is slightly higher than PGWC's. PGWC 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 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. PGWC'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 higher than PGWC's. PGWC 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 PGWC had not accounted for.

Both PGWC 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 PGWC and the Branch.

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

The Branch's estimate of other plant maintenance is higher than PGWC's. PGWC 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.

PGWC'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.

PGWC'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 different allocation factors used by the Branch.

The Branch agrees with PGWC'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 \$1,220 estimate of professional services is significantly lower than PGWC's. PGWC estimated \$2,537 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 general expense is lower than PGWC's. PGWC estimated \$213 by averaging its last three years' recorded general expense. The Branch arrived at its \$40 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 lower than PGWC's because PGWC used the recorded 1986 depreciation expense for test year 1987. The Branch's estimate is better than PGWC's because it is consistent with PGWC's and the Branch's 1987 plant estimate.

PGWC 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 \$320 result for PGWC.

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

PGWC used its end-of-year 1986 depreciation reserve of \$14,406 as its test year 1987 average reserve. The Branch's average 1987 figure of \$14,640 is better because it reflects the additional depreciation accrued from the end of 1986 to mid-1987.

PGWC 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 \$740.

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

PGWC has requested a rate of return of 10.5% 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.

Unlike three of its affiliates, PGWC 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. Two letters protesting the proposed rate increase were received from customers. The Branch later responded by letter explaining the results of its investigation and summarizing its recommendations.

An engineer from the Branch and two representatives of PGWC were available at a public meeting to explain the increase request and answer questions in Porterville on the evening of July 23, 1987. Seven people attended. There were complaints related to water service and pressure. A Branch engineer later checked water pressures and found them within the limits prescribed by General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." A problem of rusty water had been solved earlier by replacement of a failed air relief valve in the pressure tank.

A field investigation of PGWC'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 meter has been installed at the one well serving PGWC's system as required by G.O. 103. PGWC contends that its electric meter can be used as a measuring device 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 pump over time, variations in well water levels and other variables make it unsuitable for the requirements of G.O. 103. With a separate water production measuring device, water production can be compared with kWh consumed to detect any decline in pump efficiency before service is affected.

Although PGWC has only one well, the City of Porterville has mains in close proximity and could provide emergency service if PGWC's well failed. According to the Tulare County Department of Health Services, PGWC's water meets all state quality standards. Its well provides an ample, reliable supply and its distribution system is in good condition. Additional water conservation measures are not needed at this time.

PGWC'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.

PGWC 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.

PGWC's present metered rate schedule consists of a minimum charge for up to 1000 cubic feet and four declining rate blocks. The Branch proposes to revise the schedule to include a service charge which would recover revenue in proportion to 50% of PGWC'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 higher 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 \$3,906 or 43.8%. 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 \$7.20 to \$10.35 or 43.8%. 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. PGWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at its source of supply. PGWC should be allowed to file an advice letter to begin recovering the reasonable cost of such installation after it has been put into operation.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Pleasant Grove 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. Pleasant Grove Water Company shall comply with General Order 103 by installing a suitable measuring device or otherwise determining production at its source of supply within one year of the effective date of this resolution. Pleasant Grove Water Company is authorized to file an advice letter to begin recovering the reasonable cost of its installation after it has 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

Pleasant Grove 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	\$ 8,909	\$ 14,180	\$ 8,909	\$ 14,180	\$ 12,815
Total Revenue	8,909	14,180	8,909	14,180	12,815
<u>Operating Expenses</u>					
Purchased Power	2,688	2,688	2,688	2,688	2,688
Materials	373	373	390	390	390
Contract Work	38	38	310	310	310
Transportation	701	701	540	540	540
Other Plant Maint.	30	30	70	70	70
Office Salaries	0	0	0	0	0
Office Supplies & Exp	1,075	1,075	1,030	1,030	1,030
Management Salaries	4,330	4,330	4,240	4,240	4,240
Pension & Benefits	150	150	160	160	160
Uncollectibles	0	0	0	0	0
Office Serv. & Rent	455	455	455	455	455
Professional Services	2,537	2,537	1,220	1,220	1,220
Insurance	391	391	391	391	391
General Expense	213	213	40	40	40
Subtotal	12,981	12,981	11,534	11,534	11,534
Depreciation	532	532	520	520	520
Property Taxes	52	52	52	52	52
Payroll Taxes	0	0	320	320	320
Income Taxes	0	262	0	400	89
Total Deductions	13,565	13,827	12,426	12,826	12,515
Net Revenue	(4,656)	353	(3,517)	1,354	300
<u>Rate Base</u>					
Average Plant	16,654	16,654	16,654	16,654	16,654
Average Depr. Res.	14,406	14,406	14,640	14,640	14,640
Net Plant	2,248	2,248	2,014	2,014	2,014
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,000	1,000	740	740	740
Mat'l & Supp.	100	100	100	100	100
Rate Base	3,348	3,348	2,854	2,854	2,854
Rate of Return	Loss	10.54%	Loss	47.44%	10.50%

APPENDIX B
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated subdivision known as Tract No. 243, east of State Highway 65 and south of Olive Avenue, approximately one mile west of the City of Porterville, Tulare County.

RATES

Quantity Rate:	Per Meter Per Month	
All water, per 100 cu.ft.....	\$ 0.22	(I)
Service Charge:		(C)
For 5/8 x 3/4-inch meter.....	\$ 4.10	
For 3/4-inch meter.....	4.50	
For 1-inch meter.....	6.15	
For 1 1/2-inch meter.....	8.20	
For 2-inch meter.....	11.10	

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate. (C)

APPENDIX B
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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated subdivision known as Tract No. 243, east of State Highway 65 and south of Olive Avenue, approximately one mile west of the City of Porterville, Tulare County.

RATES

Per Service Connection
Per Month

For each single-family residential unit, including premises not exceeding 8,000 sq.ft.	\$10.35	(I)
For each additional 100 sq.ft. area in excess of 8,000 sq.ft.....	0.06	(I)

SPECIAL CONDITIONS

1. The above residential flat rate charges 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 the utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

APPENDIX C

COMPARISON OF RATES

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

GENERAL METERED SERVICE (1)

Quantity Rates:	Per Meter Per Month		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
First 1,000 cu. ft. or less.....	\$ 3.25	—	—
Next 2,000 cu. ft., per 100 cu. ft.	0.20	.22	10.0%
Next 2,000 cu. ft., per 100 cu. ft.	0.18	.22	22.2%
Next 5,000 cu. ft., per 100 cu. ft.	0.15	.22	46.7%
Over 10,000 cu. ft., per 100 cu. ft.	0.12	.22	83.3%

Minimum Charge:

For 5/8 x 3/4-inch meter.....	3.25	—	—
For 3/4-inch meter.....	4.25	—	—
For 1-inch meter.....	6.50	—	—
For 1 1/2-inch meter.....	11.00	—	—
For 2-inch meter.....	16.00	—	—

Service Charge:

For 5/8 x 3/4-inch meter.....	—	4.10	—
For 3/4-inch meter.....	—	4.50	—
For 1-inch meter.....	—	6.15	—
For 1 1/2-inch meter.....	—	8.20	—
For 2-inch meter.....	—	11.10	—

RESIDENTIAL FLAT RATE SERVICE

<u>RATES</u>	Per 3/4-inch Service Connection Per Month		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single-family residential unit, including premises not exceeding 8,000 sq. ft. in area ...	\$ 7.20	\$10.35	43.8%
For each 100 sq. ft. of premises in excess of 8,000 sq. ft.	0.04	0.06	50.0%

[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:	Pleasant Grove Water Company
Net-to-Gross Multiplier:	1.2971
Federal Tax Rate:	15%
State Tax Rate:	9.3%
Business License:	None
Uncollectibles:	None

Expenses for Test Year 1987

1. Purchased Power	
Electric:	
S. C. Edison	
Rate Schedule	PA-1
Effective Date of Schedule	1/1/87
kwh	29,850
\$/kwh	0.07996
State Energy Surcharge @\$0.0002/kwh	\$ 0
Service Charge	300
Total Cost	\$ 2,688
2. Payroll, and Employee Benefits	
Payroll	\$ 4,240
Payroll Taxes	320
Employee Pension & Benefits	160
3. Ad Valorem Taxes	\$ 52
Tax Rate	1.0090%
Assessed Value	\$ 5,200

Service Connections

1. Flat Rate Service

For a single family residential unit, including premises not exceeding 8,000 sq. ft. in area..... 98

For each 100 sq. ft. of premises in excess of 8,000 sq. ft. (20,000 sq. ft.)..... 4

Total..... 102

APPENDIX D

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ADOPTED INCOME TAX CALCULATIONS

Test Year 1987

<u>Line No.</u>	<u>Item</u>	<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$12,815	\$12,815
2.	O & M Expense	3,998	3,998
3.	A & G Expense	7,536	7,536
4.	Taxes Other Than Income	372	372
5.	Depreciation	520	520
6.	Interest	0	0
7.	State Tax		36
8.	Total Deductions	12,426	12,462
9.	State Taxable Income	389	
10.	State Tax (9.3%)	36	
11.	Taxable Income for FIT		353
12.	FIT (15%)		53
13.	Total Income Tax		89