

W-6

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3389
February 24, 1988

R E S O L U T I O N

(RES. W-3389) EPTCO WATER COMPANY, VISALIA (EWCV).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$3,062 OR 12.1% ADDITIONAL ANNUAL REVENUE.

EWCV, 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 \$4,767 or 19.6%. EWCV estimates that 1987 gross revenue of \$24,313 at present rates would increase to \$29,080 at proposed rates and would produce a rate of return of 10.50% on rate base. EWCV, Buhl, Nish, 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. EWCV serves about 221 flat rate customers in the City of Visalia.

The present rates have been in effect since November 4, 1980 pursuant to Resolution No. W-2739, dated November 4, 1980, which authorized an offset rate increase. EWCV's last general rate increase became effective March 18, 1980 pursuant to Resolution W-2614 dated March 18, 1980.

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

The Branch's estimates of operating revenue are higher than EWCV's at both present and requested rates. EWCV erroneously categorized its five commercial customers as 3/4-inch residential services with excess square footage on their lots. The Branch's estimate reflects the correct rates for these five customers with 1-inch connections.

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 slightly lower than EWCV's. EWCV used its 1986 recorded electric power billings as its 1987 estimate. The Branch accepted EWCV's position that its 1987 energy usage would be the same as 1986, but adjusted for 1987's lower energy rates.

The Branch's estimate for materials is lower than EWCV's. EWCV 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 to capitalize \$530 for two new well control panels installed in 1986, and made allowance 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. EWCV'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 EWCV's. EWCV 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 EWCV had not accounted for.

Both EWCV 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 EWCV and the Branch.

For transportation expenses, EWCV 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. EWCV offered no support for its \$0.27 per mile figure.

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

EWCV'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.

EWCV'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 EWCV'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 \$1,630 estimate of professional services is significantly lower than EWCV's. EWCV estimated \$3,190 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 EWCV is slightly higher than EWCV's because the Branch included \$100 for the cost of a bond required by Tulare County to operate the five utilities. EWCV 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 EWCV's. EWCV estimated \$298 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.

The Branch's estimate of depreciation expense is higher than EWCV's. EWCV used the recorded 1986 depreciation expense for test year 1987. The Branch's estimate is better because it is consistent with its 1987 plant estimate.

EWCV 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 \$690 result for EWCV.

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

EWCV used its end-of-year 1986 utility plant of \$57,028 for its 1987 estimate. The Branch's slightly higher estimate of \$57,560 for 1987 average plant reflects its capitalization of \$530 in materials expense in 1986 as explained earlier. There were no additions planned or recorded for 1987.

EWCV used its end-of-year 1986 depreciation reserve of \$43,242 as its test year 1987 average reserve. The Branch's average 1987 figure of \$45,070 reflects the additional depreciation accrued from the end of 1986 to mid-1987, plus corrections the Branch made to correct EWCV's depreciation reserve entries during the past three years. EWCV had been booking a constant dollar amount to depreciation reserve rather than applying its depreciation rate to plant in service.

EWCV 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 \$1,420.

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

EWCV 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-2739 dated November 4, 1980, EWCV was ordered to maintain a balancing account for purchased power. The present owner acquired EWCV in 1983 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. EWCV 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. No letters were received from customers in response to the notice.

An engineer from the Branch and two representatives of EWCV were available at the public meeting to explain the increase request and answer questions in Visalia on the evening of July 29, 1987. No customers attended.

A field investigation of EWCV'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 three wells serving EWCV's system as required by General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." EWCV 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, EWCV's water meets all state quality standards. Its three wells provide an ample, reliable supply and its distribution system is in good condition. Additional water conservation measures are not needed at this time.

EWCV presently has only a general flat rate schedule. The Branch proposes to increase the flat rate schedule by the system average increase authorized by this resolution.

EWCV 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 metered rate schedule which includes a service charge which would recover revenue in proportion to 50% of EWCV'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 Branch recommends that the Commission authorize an increase in gross revenue of \$3,062 or 12.1%. 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 \$7.67 to \$8.60 or 12.1%. 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. EWCV should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. EWCV 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 EPTCO Water Company, Visalia 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 Schedule No. 2. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.

2. EPTCO Water Company, Visalia 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. EPTCO Water Company, Visalia 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

EPTCO Water Company, Visalia

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	\$24,313	\$29,080	\$25,284	\$30,300	\$28,346
Total Revenue	24,313	29,080	25,284	30,300	28,346
<u>Operating Expenses</u>					
Purchased Power	6,177	6,177	6,060	6,060	6,060
Materials	773	773	590	590	590
Contract Work	296	296	1,210	1,210	1,210
Transportation	1,490	1,490	1,150	1,150	1,150
Other Plant Maint.	358	358	370	370	370
Office Salaries	0	0	0	0	0
Office Supplies & Exp	785	785	670	670	670
Management Salaries	9,196	9,196	9,160	9,160	9,160
Pension & Benefits	319	319	340	340	340
Uncollectibles	46	46	46	46	46
Office Serv. & Rent	966	966	966	966	966
Professional Services	3,190	3,190	1,630	1,630	1,630
Insurance	830	830	850	850	850
General Expense	298	298	90	90	90
Subtotal	24,724	24,724	23,132	23,132	23,132
Depreciation	1,708	1,708	2,010	2,010	2,010
Property Taxes	608	608	608	608	608
Payroll Taxes	0	0	690	690	690
Income Taxes	0	476	0	884	436
Total Deductions	27,040	27,516	26,440	27,324	26,876
Net Revenue	(2,727)	1,564	(1,156)	2,976	1,470
<u>Rate Base</u>					
Average Plant	57,028	57,028	57,560	57,560	57,560
Average Depr. Res.	43,242	43,242	45,070	45,070	45,070
Net Plant	13,786	13,786	12,490	12,490	12,490
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,000	1,000	1,420	1,420	1,420
Mat'l & Supp.	100	100	100	100	100
Rate Base	14,886	14,886	14,010	14,010	14,010
Rate of Return	Loss	10.50%	Loss	21.24%	10.50%

APPENDIX B
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 179, and vicinity, located approximately 1 mile west of the city limits of Visalia, Tulare County.

RATES

Quantity Rate:	Per Meter Per Month
All water, per 100 cu.ft.....	\$ 0.215
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

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.

APPENDIX B
Page 2

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Tract No. 179 and vicinity, located approximately 1 mile west of the city limits of Visalia, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>			
	<u>Per 3/4-inch Service Connection</u>		<u>Per 1-inch Service Connection</u>	
1. For a single-family residential unit, including premises not exceeding 10,000 sq. ft. in area.....	\$ 8.60	(I)	\$ 9.83	(I)
a. For each 100 sq. ft. of premises in excess of 10,000 sq. ft.....	.062	(I)	.062	(I)
b. For each additional single-family residential unit on the same premises and served from the same service connection	3.76	(I)	4.60	(I)
2. For each Beauty Shop.....	-		12.10	
3. For each Car Wash.....	-		18.61	
4. For each Grocery Store.....	-		22.37	
5. For each Laundromat.....	-		28.27	
6. For each Business Office.....	8.60	(I)	9.83	(I)

APPENDIX C

COMPARISON OF RATES

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

GENERAL FLAT RATE SERVICE

	<u>Per 3/4-inch Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
1. For a single-family residential unit, including premises not exceeding 10,000 sq. ft. in area	\$ 7.67	\$ 8.60	12.1%
a. For each 100 sq. ft. of premises in excess of 10,000 sq. ft.	0.055	0.062	12.7%
b. For each additional single family residential unit on the same premises and served from the same service connection.....	3.35	3.76	12.2%
2. For each Beauty Shop.....	-	-	-
3. For each Car Wash.....	-	-	-
4. For each Grocery Store.....	-	-	-
5. For each Laundromat.....	-	-	-
6. For each Business Office.....	7.67	8.60	12.1%

	<u>Per 1-inch Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
1. For a single-family residential unit, including premises not exceeding 10,000 sq. ft. in area.....	\$ 8.77	\$ 9.83	12.1%
a. For each 100 sq. ft. of premises in excess of 10,000 sq. ft.	0.055	0.062	12.7%
b. For each additional single-family residential unit on the same premises and served from the same service connection.....	4.10	4.60	12.2%
2. For each Beauty Shop.....	10.79	12.10	12.1%
3. For each Car Wash.....	16.60	18.61	12.1%
4. For each Grocery Store.....	19.95	22.37	12.1%
5. For each Laundromat.....	25.21	28.27	12.1%
6. For each Business Office.....	8.77	9.83	12.1%

APPENDIX D

Page 1

ADOPTED QUANTITIES

Test Year 1987

Name of Company:	EPTOD Water Company, Visalia
Net-to-Gross Multiplier:	1.2971
Federal Tax Rate:	15%
State Tax Rate:	9.3%
Business License:	None
Uncollectibles:	\$46

Expenses for Test Year 1987

1. Purchased Power	
Electric:	
S. C. Edison	
Rate Schedule	PA-1
Effective Date of Schedule	1/1/87
kwh	67,340
\$/kwh	0.07996
State Energy Surcharge @ \$0.0002/kwh	\$ 10
Service Charge	\$ 540
Cost	\$ 5,940
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	\$ 6,060
2. Payroll, and Employee Benefits	
Payroll	\$ 9,160
Payroll Taxes	690
Employee Pension & Benefits	340
3. Ad Valorem Taxes	\$ 608
Tax Rate	1.0612%
Assessed Value	\$57,290

APPENDIX D
Page 2

Service Connections

3/4-inch

1. Flat Rate Service

For a single family residential unit, including premises not exceeding 10,000 sq.ft. in area.....	95
a. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. (671,000 sq. ft.).....	121
b. For each additional single-family residential unit on the same service connection.....	0
2. For each Beauty Shop.....	0
3. For each Car Wash.....	0
4. For each Grocery Store.....	0
5. For each Laundromat.....	0
6. For each Business Office.....	0
Subtotal.....	216

1-inch

1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area.....	0
a. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. (0 sq.ft.).....	0
b. For each additional single-family residential unit on the same premises and served from the same service connection..	0
2. For each Beauty Shop.....	1
3. For each Car Wash.....	1
4. For each Grocery Store.....	1
5. For each Laundromat.....	1
6. For each Business Office.....	1
Subtotal.....	5

Total..... 221

APPENDIX D

Page 3

ADOPTED INCOME TAX CALCULATIONS

Test Year 1987

<u>Line No.</u>	<u>Item</u>	<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$28,346	\$28,346
2.	O & M Expense	9,380	9,380
3.	A & G Expense	13,752	13,752
4.	Taxes Other Than Income	1,298	1,298
5.	Depreciation	2,010	2,010
6.	Interest	0	0
7.	State Tax		177
8.	Total Deductions	26,440	26,617
9.	State Taxable Income	1,906	
10.	State Tax (9.3%)	177	
11.	Taxable Income for FIT		1,729
12.	FIT (15%)		259
13.	Total Income Tax		436