

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3390
February 24, 1988

RESOLUTION

(RES. W-3390) EPTCO WATER COMPANY, PORTERVILLE
(EWCP). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$2,160 OR 41.4% ADDITIONAL ANNUAL REVENUE.

EWCP, 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 \$3,646 or 69.9%. EWCP estimates that 1987 gross revenue of \$5,214 at present rates would increase to \$8,860 at proposed rates and would produce a rate of return of 10.50% on rate base. EWCP, Buhl, Nish, EPTCO Visalia 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. EWCP serves about 53 flat rate customers in the City of Porterville.

The present rates have been in effect since November 18, 1980 pursuant to Resolution No. W-2743, dated November 18, 1980, which authorized an offset rate increase. EWCP's last general rate increase became effective April 2, 1980 pursuant to Resolution W-2621 dated April 2, 1980.

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

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

The Branch's estimate for contract work is significantly higher than EWCP's. EWCP 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. The Branch then estimated an additional amount for required water testing that EWCP had not accounted for. EWCP'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 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.

Both EWCP 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 EWCP and the Branch.

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

The Branch's estimate of other plant maintenance is slightly lower than EWCP's. EWCP 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.

EWCP'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.

The Branch's \$1,050 estimate of professional services is significantly lower than EWCP's. EWCP estimated \$2,533 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 EWCP's. EWCP estimated \$90 by averaging its last three years' recorded general expense. The Branch arrived at its \$20 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 EWCP's. EWCP used the recorded 1986 depreciation expense for test year 1987. The Branch's estimate is better because it is consistent with EWCP's and the Branch's 1987 plant estimate.

EWCP 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 \$160 result for EWCP.

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

EWCP used its recorded average 1986 depreciation reserve of \$9,985 as its test year 1987 average reserve. The Branch's average 1987 figure of \$10,250 is better because it reflects the additional depreciation accrued from mid-1986 to mid-1987.

EWCP 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 \$430.

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

EWCP 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-2743 dated November 18, 1980, EWCP was ordered to maintain a balancing account for purchased power. The present owner acquired EWCP 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. EWCP 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 EWCP were available at the public meeting to explain the increase request and answer questions in Porterville on the evening of July 22, 1987. Four customers attended. There were no complaints related to water service and all questions regarding the requested rate increase were answered to the customers' satisfaction.

A field investigation of EWCP'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 EWCP's system as required by General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." EWCP 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 EWCP has only one well, the City of Porterville has mains in close proximity and could provide emergency service if EWCP's well failed. According to the Tulare County Department of Health Services, EWCP'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.

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

EWCP 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 EWCP'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 \$2,160 or 41.4%. 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 \$7.46 to \$10.55 or 41.4%. 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. EWCP should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at its source of supply. EWCP 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 EPTCO Water Company, Porterville 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. 2R. 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, Porterville 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. EPTCO Water Company, Porterville 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

EPTCO Water Company, Porterville

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	\$ 5,214	\$ 8,860	\$ 5,214	\$ 8,860	\$ 7,374
Total Revenue	5,214	8,860	5,214	8,860	7,374
<u>Operating Expenses</u>					
Purchased Power	1,334	1,334	1,334	1,334	1,334
Materials	117	117	117	117	117
Contract Work	96	96	420	420	420
Transportation	354	354	280	280	280
Other Plant Maint.	196	196	110	110	110
Office Salaries	0	0	0	0	0
Office Supplies & Exp.	431	431	420	420	420
Management Salaries	2,186	2,186	2,186	2,186	2,186
Pension & Benefits	76	76	76	76	76
Uncollectibles	63	63	63	63	63
Office Serv. & Rent	229	229	229	229	229
Professional Services	2,533	2,533	1,050	1,050	1,050
Insurance	197	197	197	197	197
General Expense	90	90	20	20	20
Subtotal	7,902	7,902	6,502	6,502	6,502
Depreciation	295	295	330	330	330
Property Taxes	128	128	128	128	128
Payroll Taxes	0	0	160	160	160
Income Taxes	0	250	0	400	59
Total Deductions	8,325	8,575	7,120	7,520	7,179
Net Revenue	(3,111)	285	(1,906)	1,340	195
<u>Rate Base</u>					
Average Plant	11,578	11,578	11,578	11,578	11,578
Average Depr. Res.	9,985	9,985	10,250	10,250	10,250
Net Plant	1,593	1,593	1,328	1,328	1,328
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,000	1,000	430	430	430
Mat'l & Supp.	100	100	100	100	100
Rate Base	2,693	2,693	1,858	1,858	1,858
Rate of Return	Loss	10.50%	Loss	72.12%	10.50%

APPENDIX B
Page 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including Tract 239 adjacent to State Highway 65, approximately 1 1/2 miles northwest of Porterville, Tulare County.

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>
All water, per 100 cu.ft.....	\$ 0.22
Service Charge:	
For 5/8 x 3/4-inch meter.....	\$ 4.65
For 3/4-inch meter.....	5.10
For 1-inch meter.....	7.00
For 1 1/2-inch meter.....	9.30
For 2-inch meter.....	12.60

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. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area including Tract No. 239 adjacent to State Highway 65, approximately 1 1/2 miles northwest of the City of Porterville, Tulare County.

Per Service Connection
Per Month

RATES

For a single-family residential unit, including premises not exceeding 9,000 sq.ft. in area	\$10.55	(I)
For each 100 sq.ft. of premises in excess of 9,000 sq.ft.	0.09	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. Residential service not provided for above shall be furnished on a metered basis only.
3. If either the utility or the customer so elects, a meter shall be installed and service provided under 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:

RESIDENTIAL FLAT RATE SERVICE

	<u>Per Service Connection</u>		<u>Per Month</u>
	<u>Present</u>	<u>Recommended</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For a single-family residential unit, including premises not exceeding 9,000 sq. ft. in area.....	\$ 7.46	\$10.55	41.4%
For each 100 sq. ft. of premises in excess of 9,000 sq. ft.....	0.065	0.09	38.5%

APPENDIX D
Page 1

ADOPTED QUANTITIES

Test Year 1987

Name of Company: EPTCO Water Company, Porterville
Net-to-Gross Multiplier: 1.2971
Federal Tax Rate: 15%
State Tax Rate: 9.3%
Business License: None
Uncollectibles: \$63

Expenses for Test Year 1987

1. Purchased Power	
Electric:	
S. C. Edison	
Rate Schedule	PA-1
Effective Date of Schedule	1/1/87
Kwh	14,450
\$/kwh	0.07996
State Energy Surcharge @\$0.0002/kwh	0
Service Charge	180
Total Cost	\$ 1,334
2. Payroll, and Employee Benefits	
Payroll	\$ 2,186
Payroll Taxes	160
Employee Pension & Benefits	76
3. Ad Valorem Taxes	\$ 128
Tax Rate	1.0090%
Assessed Value	\$12,710

Service Connections

1. Flat Rate Service	
For a single family residential unit, including premises not exceeding 9,000 sq. ft. in area.....	33
For each 100 sq. ft. of premises in excess of 9,000 sq. ft. (60,300 sq. ft.).....	20
Total	53
2. Metered Rate Service	None

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	\$ 7,374	\$ 7,374
2.	O & M Expense	2,261	2,261
3.	A & G Expense	4,241	4,241
4.	Taxes Other Than Income	288	288
5.	Depreciation	330	330
6.	Interest	0	0
7.	State Tax		24
8.	Total Deductions	7,120	7,144
9.	State Taxable Income	254	
10.	State Tax (9.3%)	24	
11.	Taxable Income for FIT		230
12.	FIT (15%)		35
13.	Total Income Tax		59