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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3391
March 9, 1988

RESOLUTION

(RES. W-3391) RAMONA WATER COMPANY (RWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$21,540 OR 100.0% ADDITIONAL ANNUAL REVENUE.

RWC, by a revised draft advice letter accepted by the Water Utilities Branch (Branch) on October 30, 1987, requested authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$21,540 or 100%. RWC estimates that 1987 gross revenue of \$21,540 at present rates would increase to \$43,080 at proposed rates and would produce a rate of return of 1.30% on rate base. RWC had initially requested an increase of \$56,460 or 262.1% but later decided to request the lower increase to avoid alienating its customers. RWC serves about 85 flat rate and 14 metered customers near Anza, Riverside County.

The present rates have been in effect since May 23, 1980 pursuant to Resolution No. W-2611 dated March 4, 1980 which authorized a general rate increase.

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

The differences in estimated expenses are in purchased power, employee labor, professional services and income taxes.

The Branch's estimate for purchased power is slightly lower than RWC's. RWC used estimates of its 1986 and 1987 water production and 1986 power usage to estimate its 1987 power usage. It multiplied that figure by a cost per kWh (kilowatt-hour) determined from its May, 1987 power bill to obtain a total power cost for 1987. However, RWC's water production estimates are unreliable because some of its wells do not have production meters, and its 1986 power usage is inaccurate because one of its electric meters was vandalized and out of service for five months in 1986. The Branch's estimate used RWC's recorded power for the twelve months ending October, 1987 and the latest available power rates. The Branch's resulting kWh figure was much higher than RWC's and its cost per kWh was much lower, but the product was only slightly lower than RWC's.

The Branch's estimate of employee labor is much higher than RWC's. RWC's three pressure zones and five wells, hilly service area and lack of automatic controls make its operation labor-intensive. RWC's estimate of labor is based on its recorded labor expenses for the past five years, but during those five years RWC has been heavily subsidized by AMLANCO, an affiliated land development firm. Because of its continuing operating losses, AMLANCO has not charged RWC for much of the labor provided and RWC's recorded labor expenses have been unrealistically low. The Branch based its figure on estimates of hours worked and the hourly rates of RWC's two part-time employees.

As explained later, RWC has severe water supply problems and needs to take all possible steps to develop additional supplies. In 1985, it drilled two dry wells at a cost of \$8,500 in an attempt to alleviate the supply problem. It now proposes to amortize their cost over ten years, \$850 per year, and has included that amount in its other maintenance expense estimate. The Branch believes that RWC's failed efforts were made with its customers' best interests in mind and concurs with its proposal to amortize the costs. Because the increase RWC is requesting in this rate case will still leave it in a loss situation, authorizing the amortization will have no effect on rates at this time. There may be an effect in the future should RWC later be authorized rates to bring it up to a full return before the \$8,500 is fully amortized in 1995.

The Branch's \$4,360 estimate of professional services is lower than RWC's \$5,580 because of the Branch's recalculation of RWC's accountant's pay and the Branch's exclusion of a retainer fee for its rate case consultant. RWC used a rough estimate of its accountant's hours whereas the Branch examined the utility's records to obtain a more accurate estimate. The Branch concurred in RWC's estimate of expenses for this rate case, but excluded the additional \$720 per year RWC's consultant had included as a retainer for indefinite services to be provided in the future.

Differences in income tax estimates are due to differing expenses and RWC's use of the old state income tax minimum. The Branch used current tax law in its income tax calculations.

The differences between RWC and the Branch in rate base are in depreciation reserve, contributions and working cash.

The Branch's estimate of depreciation reserve is higher than RWC's. Between 1982 and 1987 RWC based the depreciation expense and reserve entries in its annual reports to the Commission on federal tax guidelines rather than using its ratemaking depreciation rate. As a result, it proposed a one-time adjustment in test year 1987 to correct its ratemaking books. However, the 1982 depreciation reserve figure it used as a base is inconsistent with the figure adopted by the Commission in RWC's last rate case. The Branch began with the last adopted depreciation reserve figure in 1980 and recalculated the reserve through to 1987 using recorded plant data and the 2.4% depreciation rate proposed by RWC.

The Branch's estimate of contributions is much higher than RWC's. Resolution No. W-2611 dated March 4, 1980 found that RWC had overcharged its customers by \$11,660. Rather than order refunds, the Commission ordered the overcharges accounted for as contributions. In Decision (D.) 85-11-051 dated November 13, 1985 the Commission again examined the issue and upheld its earlier order to account for the overcharges as contributions, but specifically left open the possibility of reconsidering the amount in the next rate proceeding. RWC has not presented evidence supporting a lower overcharge amount but rather is requesting that it be allowed to write the ordered contribution down over ten years. This is contrary to the Commission's earlier two orders. The Branch has shown the entire \$11,660 overcharge as a contribution as the Commission previously required.

RWC shows an unsubstantiated \$880 working cash figure in its summary of earnings. The Branch used the simplified method for a water utility using monthly combined flat rate and metered billing as prescribed in the Commission's Standard Practice U-16, "Determination of Working Cash Allowance" to arrive at its estimate of \$1,080.

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

The Accounting and Financial Branch of the Commission Advisory and Compliance Division currently recommends a rate of return of 10.25% to 10.75% for small water utilities with 100% equity financing. The authorized rate of return in the last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items such as purchased power. The Branch therefore recommends that the Commission find a rate of return on rate base not exceeding 10.50% to be reasonable for the purpose of future earnings tests for RWC.

A notice of the proposed rate increase and public meeting was mailed to all customers on November 16, 1987. No letters were received from customers in response to the notice.

An informal public meeting was held at Anza Community Hall in Anza on November 24, 1987. Representatives from the Branch and RWC explained the rate increase process and answered questions. A representative from the Riverside County Department of Health Services (RCHS) also attended and answered questions. There were thirty-four people at the meeting, fifteen of whom made comments. As explained below, RWC has had and continues to have serious water supply problems. All questions asked at the meeting were answered to the customers' satisfaction.

A field inspection of RWC's system was made by a Branch engineer on September 29 and October 6, 1987. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. Although the investigation showed that service is satisfactory during the winter months, customers experience frequent outages during the summer and an additional water source is needed, especially to serve customers at the higher elevations.

RWC has had a history of water supply problems since it was declared a public utility by D.81097 in 1973 and ordered not to connect additional customers without Commission authorization. The Commission has issued two orders instituting investigations in the intervening years (1975 and 1984) and the resulting orders have continued the ban on new connections and generally found RWC's system and supplies inadequate.

The Branch's investigation revealed that, while there are still serious problems, RWC has been making a strong effort to develop additional supplies but has been hampered by a lack of funds to cover operating costs and has suffered from setbacks beyond its control. In 1984 an earthquake damaged both of RWC's wells serving the highest part of its system. One of the wells collapsed and the other's capacity was cut back sharply. In 1985 it drilled two dry wells as discussed earlier. The RCHS representative attending the public meeting explained that RWC is now being required to take its best producing well out of service within one year because of excessive dissolved solids in the water, and will have to find another source of supply. In response, RWC is planning to bring in additional water from a privately owned well under a lease agreement this spring, and hopes in the future to refurbish and deepen the existing well to eliminate the dissolved solids problem. In view of the current supply situation, however, the Branch believes the moratorium on new connections should continue.

According to the RCHS, with the exception of excessive dissolved solids in the well being ordered out of service, RWC's water meets all primary state water quality standards. RWC has an ongoing program to meter its customers to promote conservation, and has recently completed and filed with the Commission a water conservation plan which includes a special tariff rule (Rule 14.1) allowing it to ration or cut off heavy users during emergency conditions of short supply. The Branch believes that RWC is taking all feasible steps within its resources to develop new supplies and conserve those it already has.

RWC has a metered rate schedule and a residential flat rate schedule. This resolution would authorize a 100% increase, so the Branch proposes to double the existing rates on each schedule.

RWC's metered rate schedule consists of a service charge and a single quantity rate for all water used. The present service charge would recover 24% of fixed costs if all customers were metered. The Branch's proposed service charge would recover 48% of fixed costs if all customers were metered. This is consistent with the Commission's rate design policy for water companies established by D.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.

At the recommended rates shown in Appendix B, the monthly bill for a typical flat rate residential customer would double from \$15.50 to \$31.00, while the average metered customer's bill would double from \$27.50 to \$55.00. Metered bills are higher because metered customers' consumption is nearly two times the state average. RWC is gradually converting its flat rate customers to meters as funds permit. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase in gross revenue of \$21,540 or 100%. This will result in RWC's continuing to operate at a loss, but provides the full increase requested in test year 1987.

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. RWC's water supply is marginal and the restriction on new connections ordered by D.85-11-051 should be kept in effect until RWC has shown that its water supply is adequate to serve additional customers.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Ramona 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 2. Such filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. For the purpose of earnings tests in any of Ramona Water Company's future offset rate increase requests, a rate of return on rate base not exceeding 10.50% shall be considered reasonable.
3. The restriction on new connections ordered by Decision 85-11-051 is continued.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 9, 1988. The following commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners


VICTOR R. WEISSNER
Executive Director

APPENDIX A

Ramona 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	\$ 5,916	\$11,832	\$ 5,916	\$11,832	\$11,832
Flat Rate	15,624	31,248	15,624	31,248	31,248
Total Revenue	21,540	43,080	21,540	43,080	43,080
<u>Operating Expenses</u>					
Purchased Power	18,380	18,380	18,165	18,165	18,165
Materials	100	100	100	100	100
Transportation	1,540	1,540	1,540	1,540	1,540
Employee Labor	2,850	2,850	10,100	10,100	10,100
Other Maintenance	2,130	2,130	2,130	2,130	2,130
Office Serv. & Rent	140	140	140	140	140
Office Suppl. & Exp.	620	620	620	620	620
Professional Service	5,580	5,580	4,360	4,360	4,360
General Expense	70	70	70	70	70
Subtotal	31,410	31,410	37,225	37,225	37,225
Depreciation	7,500	7,500	7,500	7,500	7,500
Income Taxes	200	970	300	300	300
Property Taxes	0	0	0	0	0
Payroll Taxes	0	0	0	0	0
Total Deductions	39,110	39,880	45,025	45,025	45,025
Net Revenue	(17,570)	3,200	(23,485)	(1,945)	(1,945)
<u>Rate Base</u>					
Avg. Plant	313,740	313,740	313,740	313,740	313,740
Avg. Depr. Res.	65,360	65,360	74,650	74,650	74,650
Net Plant	248,380	248,380	239,090	239,090	239,090
Less: Advances	0	0	0	0	0
Contrib.	2,670	2,670	11,660	11,660	11,660
Plus: Work. Cash	880	880	1,080	1,080	1,080
Mat'l & Supp.	500	500	500	500	500
Rate Base	247,090	247,090	229,010	229,010	229,010
Rate of Return	Loss	1.30%	Loss	Loss	Loss

APPENDIX B
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Anza Acres, Ramona Estates and vicinity, located approximately two miles east of Anza, Riverside County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 10.00	(I)
For 3/4-inch meter.....	14.00	
For 1-inch meter.....	18.00	
For 1 1/2-inch meter.....	28.00	
For 2-inch meter.....	40.00	(I)
Quantity Rate:		
All water, per 100 cu.ft.	1.80	(I)

APPENDIX B
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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Anza Acres, Ramona Estates and vicinity, located approximately two miles east of Anza, Riverside County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
Flat Rate Service:		
For each single-family residential unit, including premises	\$31.00	(I)
For each additional residential unit served from the same service connection	18.00	(I)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects a meter shall be installed and service provided under Schedule No. 1, Metered Service.

(N)
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|
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(N)

APPENDIX C

COMPARISON OF RATES

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

<u>METERED SERVICE</u>	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter.....	\$ 5.00	\$10.00	100.0%
For 3/4-inch meter.....	7.00	14.00	100.0
For 1-inch meter.....	9.00	18.00	100.0
For 1 1/2-inch meter.....	14.00	28.00	100.0
For 2-inch meter.....	20.00	40.00	100.0
Quantity Rate:			
Per 100 cu.ft.....	\$ 0.90	\$ 1.80	

A comparison of monthly customer bills at present and the Branch's recommended rates for a 5/8 x 3/4-inch meter is tabulated below:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 5.00	\$ 10.00	\$ 5.00	100.0%
5	9.50	19.00	9.50	100.0
10	14.00	28.00	14.00	100.0
20	23.00	46.00	23.00	100.0
25 (Avg)	27.50	55.00	27.50	100.0
30	32.00	64.00	32.00	100.0
40	41.00	82.00	41.00	100.0
50	50.00	100.00	50.00	100.0
60	59.00	118.00	59.00	100.0

<u>FLAT RATE SERVICE</u>	<u>Per Service Connection</u> <u>Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>

For a single-family residential unit including premises:

3/4-inch service connection	\$15.50	\$31.00	100.0%
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ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Ramona Water Company
Net-to-gross Multiplier: N/A
Federal Tax Rate: 15%
State Tax Rate: 9.3% (\$300 minimum)
Local Franchise Tax Rate: 0
Uncollectible Rate: 0

Expenses:

1. Purchased Power
Anza Electric Cooperative, Inc.
Rate Schedule A-1
Effective Date of Schedule 5/1/87
kwh 136,389
\$/kwh 0.1200
Service Charge \$ 1,800
Total Cost \$18,165
2. Purchased Water None
3. Pump Tax - Replenishment Tax None
4. Payroll:
Operations and Maintenance \$10,100
Administrative & General (Accounting) \$ 3,250

Service Connections

<u>Meter Size</u>	<u>Connections</u>
5/8 x 3/4	13
3/4	0
1	0
1-1/2	0
2	1
	<u>14</u>
<u>Flat Rate</u>	
Single Family	<u>84</u>
Total	98

Metered Water Sales Used to Design Rates:

Residential usage	3,970 Ccf
Commercial usage	<u>1,470</u>
Total	5,440

APPENDIX D
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ADOPTED INCOME TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>1987</u> <u>Adopted Rates</u>	
		<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$43,080	\$43,080
2.	Operating Expenses	37,225	37,225
3.	Tax Depreciation	7,500	7,500
4.	Interest	0	0
5.	State Income Tax		300
6.	Sub-Total Deduction	44,725	45,025
7.	State Taxable Income	(1,645)	
8.	State Tax (minimum)	300	
9.	Federal Taxable Income		(1,945)
10.	Federal Income Tax (15%)		0
11.	Total Income Tax		300

(END OF APPENDIX D)