

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3399  
June 8, 1988

R E S O L U T I O N

(RES. W-3399) TULCO WATER COMPANY (TWC). ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$6,380 OR 33.8% ADDITIONAL ANNUAL REVENUE.

TWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on December 12, 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 \$7,855 or 42.7%. After removing the effects of user fee surcharges which are not considered for ratemaking, TWC's request shows 1988 gross revenue of \$18,392 at present rates increasing to \$26,247 at proposed rates to produce a rate of return on rate base of 11.69%. TWC serves 179 flat rate customers located approximately three miles east of the City of Tulare, Tulare County.

The present rates became effective November 1, 1980, pursuant to Resolution No. W-2727 issued October 8, 1980, which authorized a general rate increase.

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

The Branch's higher estimate of revenues at present rates is the result of the Branch's using a utility furnished list of the latest customer count times the present rates as opposed to TWC's use of 1986 recorded revenue. The Branch's and TWC's revenues at proposed rates are based on the same number of customers; however, the Branch's figure is higher than TWC's because of an error in TWC's workpapers.

The differences in estimates for operating expenses are in purchased power, contract work, transportation, office salaries, office supplies and expense, management salaries, uncollectibles, professional services, insurance, general expense, depreciation expense, property tax, and income taxes. For many of its 1988 expense estimates, TWC used its 1986 or 1987 recorded costs which may include non-recurring and erratically-recurring costs. Since recorded figures of one year may not be representative of the level of expense in other years, the Branch used a three-year inflation adjusted average for most of its expense estimates. The escalation factors used were those provided by the Advisory Branch of Commission Advisory and Compliance Division.

The Branch's estimate of purchased power expense is considerably lower than TWC's. TWC arrived at its \$9,066 estimate by increasing the 1987 recorded power cost by an arbitrary percentage. However, the Branch notes that 1987 was a dry year and thus TWC's customers used more water than they would in a normal year. As a result, pumping power recorded was much higher than normal. The Branch arrived at its \$6,845 estimate by taking the average of the last three years' usage and applying Southern California Edison Company's most recent Schedule PA-1 effective February 1, 1988.

The Branch's estimate for contract work is \$3,077 as opposed to TWC's \$4,000. TWC estimated contract work for test year 1988 to be approximately the same as recorded in 1987, whereas the Branch examined the recorded expenses for the last three years and found some that would not be expected to reoccur annually. Pump overhauls were spread over five years; certain water testing costs were spread over three years; and most of the remaining items were estimated as the inflation adjusted average of the past three years. The Branch also shifted water testing costs to this account that TWC had included in professional services as noted later.

The Branch's estimate of transportation expense for test year 1988 is \$400, whereas TWC has not included any amount in this expense category. The Branch's estimate should be sufficient for TWC to inspect and repair the system and travel as necessary to purchase materials and supplies.

TWC's estimate for office salaries is \$900 while the Branch's estimate is \$2,400. The owner's other business provides part-time office help and the use of an office. After this filing was accepted, TWC's owner requested that the Branch re-examine this account because he plans to sell his other business and will not be in a position to continue to subsidize TWC. The Branch agrees that the amounts the owner allocated to TWC are unrealistically low even under present operating conditions.

TWC's estimate for office supplies and expenses is \$865 while the Branch's is \$948. TWC's estimate is the average of its 1986 and 1987 recorded expenses. For consistency with the treatment of other expenses, the Branch used the inflation adjusted average of the last three years' recorded figures.

TWC's estimate for management salaries is \$800 while Branch's estimate is \$1,800. The Branch's treatment of this account is similar to that for office salaries as explained above. Because an unrealistically low portion of the owner's salary was allocated to TWC, the Branch used a figure of \$150 per month for its estimate.

TWC's estimate for uncollectibles is \$280 based on the owner's judgment. The Branch based its estimates on a three-year average of recorded uncollectibles as a percentage of revenues and applied the resulting average percentage to the test year 1988 revenues.

TWC's estimate for professional services is \$720 as opposed to the Branch's estimate of \$430. The difference is due to the Branch's transferring amounts for water testing by the Tulare County Department of Health Services from the professional services account to the contract work account as noted earlier.

TWC's estimate for insurance is \$4,800 while the Branch's estimate is \$4,004. TWC used as its estimate a preliminary premium quotation received before it made its rate increase filing. In early February, 1988, TWC informed the Branch that it had received a better offer of \$4,004 for the liability insurance it had been seeking. The Branch examined TWC's other quotations and agrees that the most recent offer is reasonable in today's market.

TWC did not include an amount for regulatory commission expense. The Branch has included \$200 to compensate TWC's manager for the time spent in preparing the workpapers for and supporting this rate increase request. At \$600 for the three year rate case cycle, this is less than TWC would have paid a consultant to do the work.

TWC's estimate of depreciation expense is \$1,096 while Branch's estimate is \$1,200. TWC used a composite depreciation rate of 2.30% but could provide no reason for its use. The Branch notes that Resolution No. W-2727 dated October 8, 1980 used a composite depreciation rate of 2.52%. The Branch's investigation revealed that the number of customers has not changed appreciably and there have been no significant plant additions or retirements since the previous rate was established. The Branch therefore used the 2.52% composite rate previously adopted to compute depreciation accrual and depreciation reserve.

TWC's estimate of property taxes is \$340 while Branch's estimate is \$304. TWC arrived at its figure by arbitrarily increasing its recorded property taxes for 1987. The Branch examined the assessed valuation and tax rate for 1987/1988 and increased the estimated taxes by 2% for 1988/1989, then used the average of the taxes for the 1987/1988 and 1988/1989 fiscal years for test year 1988.

Differences in income taxes between TWC and the Branch are due to the differences in revenue, expenses, and rate base. The Branch's figures for income taxes reflect the current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1988.

The difference in rate base is due to a difference in average depreciation reserve as noted under depreciation expense above. Because TWC had used an inappropriate depreciation rate each year since 1980, the Branch went back to the adopted depreciation reserve in TWC's 1980 test year and corrected the reserve for each subsequent year to obtain its estimate. To prevent future inconsistencies between the figures adopted by the Commission and TWC's annual reports, the Branch recommends that TWC be directed to record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and to reflect that balance in its 1988 annual report to the Commission. That balance is \$32,630 as of December 31, 1987.

TWC estimated that its proposed rates would produce a rate of return on rate base of 11.69%. The Branch recommends a rate of return of 10.50%, the midpoint of the 10.25% to 10.75% standard rate of return range recommended by the Accounting and Financial Branch of Commission Advisory and Compliance Division for small water utilities with 100% equity financing.

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

Branch engineers conducted a field inspection of TWC's service area and plant facilities on December 2, 1987. The inspection showed that the water system was reasonably maintained and that water service was generally satisfactory. Southern California Edison Company's pump test results of TWC's two well pumps showed that the 20 horsepower well pump had a 50.1% efficiency, considered fair, and the 15 horsepower pump was rated at 46.7%, which is considered low but marginally acceptable.

TWC's two wells do not have meters to record water production as required by General Order (G.O.) 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." In order to measure the well pumps' power consumptions accurately and to alert TWC's management if any of the pumps shows a decline of efficiency which may affect water service, the Branch recommends that TWC be directed to install a production meter at each well. TWC should be allowed to file an advice letter to begin recovering the reasonable cost of the installations after they have been put into operation.

TWC has two good sources of supply and a good distribution system with adequate storage and low leakage. Despite drought conditions in California during the past two winters, it has experienced only a small drop in the water table. It recently sent bill inserts to its subscribers urging conservation even though there was no immediate need to do so. Although it has no present plans to meter its customers, the Branch is recommending that the Commission authorize TWC to establish a metered schedule and give it the authority to meter customers as a conservation measure. No other conservation measures are needed at this time.

According to the Tulare County Department of Health Services, TWC's water meets all state quality standards.

A notice of the proposed rate increase and public meeting was mailed to each customer on January 6, 1988. No responses were received.

On January 20, 1988, an informal public meeting was held which was attended by two customers. Representatives of the Branch and TWC were at the meeting to explain the rate increase request and to answer customers' questions.

TWC's rates consist of a residential flat rate schedule and a public fire hydrant service schedule. TWC does not have a maintenance contract with the county fire department and does not collect revenue under the public fire hydrant schedule. The Branch recommends that Schedule No. 5, Public Fire Hydrant Service, be canceled. The Branch proposes to increase the flat rate schedule by the system average increase authorized by this resolution.

TWC has no metered customers and no plans to install meters in the immediate future. However, the Branch has prepared a metered rate schedule and added the option in its flat rate tariff to convert customers to meters. The Branch's proposed metered rate schedule includes a service charge which would recover revenue in proportion to 50% of TWC'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. Since there are no metered customers, neither the utility's revenues nor customers' bills are affected by the new schedule.

The Branch recommends that the Commission authorize an increase in gross revenue of \$6,380 or 33.8%. This increase provides a 10.50% estimated rate of return on rate base in test year 1988.

At the recommended rates shown in Appendix B, the monthly bill for a flat rate residential customer on an 8,000 square foot lot would increase from \$8.20 to \$10.98 or 33.9%. 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 recommendations are reasonable and should be adopted.
4. TWC should be required to record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and to reflect that balance in its 1988 annual report to the Commission. That balance is \$32,630 as of December 31, 1987.
5. TWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. TWC should be allowed to file an advice letter to begin recovering the reasonable costs of its installations after they have been put into operation.
6. Tariff Schedule No. 5, Public Fire Hydrant Service, should be canceled.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Tulco 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. 2R and 5. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. Tulco 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. Tulco Water Company is authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been put into operation.
3. Tulco Water Company shall record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and shall reflect that balance in its 1988 annual report to the Commission.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 8, 1988. The following commissioners approved it:

STANLEY W. HULETT  
President

DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners



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VICTOR R. WEISSER  
Executive Director

Appendix A

Tulco Water Company

SUMMARY OF EARNINGS  
Test Year 1988

Item	Utility	Estimated	Branch	Estimated	Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenue</u>					
Metered	0	0	0	0	0
Flat Rate	\$18,392	\$26,247	\$18,855	\$26,909	\$25,235
Total Revenue	\$18,392	\$26,247	\$18,855	\$26,909	\$25,235
<u>Operating Expenses</u>					
Purchased Power	9,066	9,066	6,845	6,845	6,845
Materials	0	0	0	0	0
Contract Work	4,000	4,000	3,077	3,077	3,077
Transportation	0	0	400	400	400
Other Plant Maint.	0	0	0	0	0
Office Salaries	900	900	2,400	2,400	2,400
Office Supplies & Exp.	865	865	948	948	948
Management Salaries	800	800	1,800	1,800	1,800
Pensions & Benefits	0	0	0	0	0
Uncollectibles	280	280	252	359	337
Office Serv. & Rent	1,200	1,200	1,200	1,200	1,200
Professional Services	720	720	430	430	430
Insurance	4,800	4,800	4,004	4,004	4,004
General Expense	0	0	0	0	0
Reg. Comm. Expense	0	0	200	200	200
Subtotal	22,631	22,631	21,556	21,663	21,641
Depreciation Expense	1,096	1,096	1,200	1,200	1,200
Property Taxes	340	340	304	304	304
Payroll Taxes	0	0	0	0	0
Income Taxes	300	334	300	857	569
Total Deductions	24,367	24,401	23,360	24,024	23,714
Net Revenue	(5,975)	1,846	(4,505)	2,885	1,521
<u>Rate Base</u>					
Average Plant	47,710	47,710	47,710	47,710	47,710
Average Depr. Res.	31,923	31,923	33,230	33,230	33,230
Net Plant	15,787	15,787	14,480	14,480	14,480
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	0	0	0	0	0
Mat'l. & Supp.	0	0	0	0	0
Rate Base	15,787	15,787	14,480	14,480	14,480
Rate of Return	Loss	11.69%	Loss	19.92%	10.50%

Appendix B  
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Tulco Water Company

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Allen Acres, Tract No. 132 and vicinity, located 3 miles east of Tulare, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>	
For a single-family residence, including premises not exceeding 8,000 sq.ft. in area .....	\$10.98	(I)
For each 100 sq.ft. of area in excess of 8,000 sq.ft. ....	\$ 0.08	(I)

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.

2. A meter may be installed at the option of the utility,  
in which event service thereafter will be furnished only on the  
basis of Schedule No. 1, General Metered Service.

(N)  
|  
(N)



Appendix B  
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Tulco Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Allen Acres, Tract No. 132 and vicinity, located 3 miles east of Tulare, Tulare County.

RATES

Per Meter Per Month

Quantity Rate:

All water, per 100 cu.ft. .... \$ 0.38

Service Charge:

5/8 x 3/4 - inch meter .....	\$ 4.05
3/4 - inch meter .....	4.45
1 - inch meter .....	6.05
1 1/2 - inch meter .....	8.10
2 - inch meter .....	10.95

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 C

Tulco Water Company

COMPARISON OF RATES

Flat Rate Service

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>
For a single-family residence, including premises not exceeding 8,000 sq.ft. in area ...	\$8.20	\$10.98	33.9%
For each 100 sq.ft. of area in excess of 8,000 sq.ft. ....	\$0.06	\$0.08	33.3%

Metered Rate Service

The utility currently has no metered rate tariff.

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Tulco Water Company

ADOPTED QUANTITIES  
Test Year 1988

Net-to Gross Multiplier	--
Federal Tax Rates	15%
State Tax Rate	9.3% (\$300 minimum)
Uncollectible Rate	1.33%

Expenses:

1. Purchased Power	
Southern California Edison Co.	
Rate Schedule	PA-1
Effective Date of Schedule	2/1/88
Kwh	80,563
\$/Kwh	0.07975
Service Charge	\$420
Total Cost	\$6,845
2. Purchased Water	None
3. Pump Tax - Replenishment	None
4. Payroll:	
Management salaries	\$1,800
Office salaries	2,400
Total	\$4,200
5. Ad Valorem Taxes	\$ 304
Tax Rate	1.025%
Assessed Value	\$29,602

Service Connections

Flat Rate Service

Single-family residences, including premises not exceeding 8,000 sq.ft. in area .....	0
Residences with premises in excess of 8,000 sq.ft. (172,400 sq.ft.) .....	179
Total .....	179

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Tulco Water Company

ADOPTED TAX CALCULATIONS  
Test Year 1988

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenues	\$25,235	\$25,235
2.	O & M Expenses	21,641	21,641
3.	Taxes Other Than Income	304	304
4.	Depreciation	1,200	1,200
5.	Interest	0	0
6.	State Tax	0	300
7.	Taxable Income for State Tax	2,090	
8.	State Tax (\$300 minimum)	300	
9.	Taxable Income for FIT		1,790
10.	Federal Income Tax (15%)		269
11.	Total Income Tax		569