

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3403
July 8, 1988

R E S O L U T I O N

(RES. W-3403) MAR VISTA WATER COMPANY (MVWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$12,865 OR 93.2% ADDITIONAL ANNUAL REVENUE.

MVWC by draft advice letter accepted by the Water Utilities Branch (Branch) on March 8, 1988, 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 \$20,700 or 150%. After removing the effects of MVWC's Safe Drinking Water Bond Act (SDWBA) loan which are considered separately from general rate increases, MVWC's request shows 1988 gross revenue of \$13,800 at present rates increasing to \$34,500 at proposed rates to produce a rate of return on rate base of 5.28%. MVWC serves 115 flat rate customers in the Forest Glen Subdivision and vicinity one mile east of Aptos, Santa Cruz County.

The present rates were established by Resolution No. W-2528 dated June 5, 1979 which authorized a general rate increase. A surcharge to repay a Safe Drinking Water Bond Act loan was placed on MVWC's customers pursuant to Decision (D)91921 dated June 17, 1980.

The Branch made an independent analysis of MVWC's summary of earnings. MVWC has almost no pre-1987 accounting records because its former bookkeeper allegedly embezzled funds and destroyed most of the company's books between 1980 and 1986. Many of the utility's and Branch's expense estimates are therefore based on recorded 1987 figures and any other information that could be found. Where inflation adjustments were made, the Branch used escalation factors recommended by the Advisory Branch of the Commission Advisory and Compliance Division.

The owner's son has taken over management and operation of MVWC and is now keeping good records. Application 88-03-090 to transfer control of the utility to the owner's son's corporation is pending before the Commission.

Appendix A shows MVWC's and the Branch's estimated summary of earnings at present, requested and adopted rates. Appendix A shows differences in expenses and rate base.

The differences in estimates for operating expenses are in purchased power, payroll, materials, office supplies and expense, insurance, professional services, general expense, vehicle expense and office services and rent.

The Branch's estimate of purchased power is higher than MVWC's. The Branch used the latest PG&E rates applied to recorded 1987 kilowatt hour consumption in preparing its estimate. MVWC could not explain how its estimate was derived.

The Branch's estimate of payroll is lower than MVWC's. MVWC's estimate was based on 20 hours of field and management labor per week at \$25 per hour (the manager's rate of pay as a union plumber) divided by two, plus \$2,500 additional for office work. Both the pay rate and total amount are considerably above the payroll figures for other water utilities of comparable size. The Branch used the 20 hours per week figure and a pay rate of \$10 per hour to arrive at its \$10,400 estimate for total payroll.

The Branch's estimate of materials expense is much lower than MVWC's. The Branch used MVWC's 1987 recorded materials expense escalated for inflation. MVWC could not explain how it prepared its estimate.

The Branch's estimate of office supplies and expense is higher than MVWC's. The Branch used MVWC's 1987 recorded office supplies and expense estimate escalated for inflation. MVWC provided no support for its estimate.

MVWC used as its insurance estimate its recorded 1987 insurance expense. The Branch used the actual premium for 1988 which was considerably lower than 1987's recorded figure.

The Branch's estimate of professional services is higher than MVWC's. The Branch used MVWC's 1987 recorded professional services expense escalated for inflation. MVWC could not explain how it arrived at its estimate.

MVWC could not substantiate its estimate for general expense. The Branch's much lower figure was based on the 1987 recorded amount escalated for inflation.

MVWC could not explain how it obtained its vehicle expense figure. The Branch used the mileage figure from the manager/operator's vehicle log and applied \$0.21 per mile, the rate allowed by the Internal Revenue Service for income tax purposes.

MVWC incurs no actual cost for office services and rental because the manager/operator uses a room in his own home. The Branch included a nominal \$50 per month for this purpose as being comparable to what other small water utilities charge in similar circumstances. MVWC could not explain how it arrived at its higher figure.

The Branch's estimate of depreciation expense is slightly higher than MVWC's. The difference is due to differences between MVWC's and the Branch's figures for plant as explained later, and the Branch's use of a 2½ composite depreciation rate derived from a straight line remaining life depreciation rate study. Because of the problems with combining SDWBA plant with other plant, missing records and inadequate workpapers explained above and below, it was not possible to substantiate MVWC's calculation of its depreciation expense and reserve.

The Branch's estimate of property tax is lower than MVWC's. The Branch used MVWC's most recent property tax bill, while MVWC used a higher amount from two years ago. Property taxes have declined because MVWC retired portions of its old, taxable plant and replaced it with SDWBA plant which is not subject to property taxes.

MVWC did not include payroll taxes in its estimate. The Branch used the standard payroll tax rates applied to its total estimated payroll.

The Branch's figures for income taxes reflect current rates under the federal Tax Reform Act of 1986 (TRA-86) and the corresponding state rates for 1988.

The differences in rate base between MVWC and the Branch are due to differences in plant in service and depreciation reserve.

The Branch's estimate of plant in service is lower than MVWC's. MVWC inappropriately combined its SDWBA plant with its other plant in the initial increase request; the Branch has reversed those amounts out and shown the result in the Appendix A Summary of Earnings. SDWBA plant and related items are not included in general rate increase showings because surcharges to amortize the loans are separately established at the time they are authorized by the Commission. Because of MVWC's loss of records noted earlier and the commingling of SDWBA plant, the Branch went back to MVWC's 1979 annual report to the Commission and reconstructed its plant and depreciation reserve forward to 1987 using whatever information was available. In addition, the Branch excluded \$10,000 from its plant estimate for a water bridge that MVWC now acknowledges will not be placed in service until after the end of 1988.

The Branch's estimate of depreciation reserve is slightly higher than MVWC's. The Branch went back to 1979 and recalculated MVWC's depreciation reserve for each subsequent year taking into account the average yearly change in plant and the Branch's revised depreciation rate noted above. The actual yearly plant and reserve balances were unavailable because of the loss of plant records noted earlier.

To prevent future inconsistencies between the figures adopted by the Commission and MVWC's annual reports, the Branch recommends that MVWC be directed to record on its books of account the plant in service and depreciation reserve balances upon which the average amounts adopted in this resolution are based. Those balances are \$42,332 for plant in service and \$23,864 for depreciation reserve (exclusive of SDWBA effects) as of December 31, 1987.

During its investigation the Branch found that a developer was in the process of constructing water distribution facilities and completing a well for Meadow Ranch Subdivision, a small development within MVWC's service area. Those facilities have by now been completed and presumably turned over to MVWC as contributions-in-aid-of-construction. It was clear from the Branch's inquiries that MVWC had not made arrangements to ascertain and book the plant costs as contributions as required by the uniform system of accounts. Nor has MVWC yet filed a revised tariff as required by D.87-09-026 to pass on to contributors the increased income taxes on contributions imposed by the Tax Reform Act of 1986. D.87-09-026 resulted from the Commission's Order Instituting Investigation (I.)86-11-019 into changes resulting from TRA-86, and gave small water companies like MVWC an opportunity to pass to contributors the increased income taxes resulting from contributions, but did not set a time limit for making the required tariff filing.

No figures for the Meadow Ranch Subdivision contribution are shown in Appendix A because the plant costs were unavailable. This omission has no effect on rate base or rates for this proceeding, but MVWC should be put on notice that it must ascertain and book such costs as required by the uniform system of accounts, and that it must reflect those entries in its 1988 annual report to the Commission. Further, should it fail to make the tariff filing required by D.87-09-026 and fail to collect a contributions tax gross-up, it, not its ratepayers, is at risk for any additional income taxes on contributions that TRA-86 imposes (D.87-09-926, Conclusion of Law No. 9).

MVWC's draft advice letter requested a rate increase of 150% which it estimated would still result in a net loss. After recasting into the standard ratemaking format of Appendix A, MVWC's proposed summary of earnings shows a return on rate base of 5.28%. 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 the Commission Advisory and Compliance Division for small 100% equity financed water utilities.

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

A notice of the proposed rate increase and public meeting was mailed to each customer on March 12, 1988. Four letters of protest were received by the Branch. Three letters protested the magnitude of the increase proposed, and a fourth complained of the short time between the meeting notice and the date of the meeting. The Branch recently sent each a letter explaining the results of its investigation and summarizing its recommendations.

On March 22, 1988 an informal public meeting attended by 48 members of the community was held in Aptos. A representative of the Branch conducted the meeting and company representatives were there to answer questions. Questions were asked concerning the possibility of metering heavy water users, maintenance and ownership of service lines, the possibility of converting MVWC to a mutual water company, and water quality including whether iron and

manganese could be filtered out. When customers were informed that filtering costs would increase their water rates substantially, they indicated that they would prefer to forego filtering. Although there were a few complaints, the majority of customers stated that service has been improving over the past few years.

Two Branch engineers conducted a field investigation of MVWC's service area on March 22, 1988. Visible portions of the system were inspected, pressures checked, and company records researched. The investigation revealed that service overall is satisfactory. Measurements of pressures in the high end of the system were taken and found to be marginal. Customers contacted during the investigation indicated that low pressures had not been a problem, however, so the Branch recommends that no corrective actions be required. According to the Santa Cruz County Health Department, MVWC's water meets state health standards, but it has a high manganese content which can cause aesthetic problems. As noted above, customers indicated during the public meeting that the cost of removing the manganese would be more than they were willing to pay.

MVWC has two wells in good condition and an abundant ground water supply. It has had no water shortages in the past, either during the drought of 1976-77 or during the current dry period. MVWC also has a backup well from which it can pump in an emergency. Although it has all flat rate service, it does have a metered rate tariff as discussed below and can meter any customers suspected of wasting water. No other conservation measures are needed at this time.

MVWC's two primary 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 consumption accurately and to alert MVWC's management if the pumps show a decline of efficiency which may affect water service, the Branch recommends that MVWC be directed to install a production meter at each well. MVWC should be allowed to file an advice letter to begin recovering the reasonable cost of its production meter at Well No. 1 after it has been put into operation. The cost of the production meter to be placed at the Meadow Ranch well should not be recoverable from customers since it should have been part of the contribution recently received from the developer.

MVWC's current rates consist of a yearly \$120 flat rate (plus a \$109.80 yearly SDWBA surcharge). Under the Branch's recommendation, the flat rate would be raised by the overall system increase percentage.

Although MVWC has no metered customers, it does have a metered rate schedule with minimum rates and two declining rate blocks. Most of MVWC's services are 1-inch for which the minimum yearly metered rate charge would be \$210 (plus a \$150 yearly SDWBA surcharge), far higher than the flat rate. The origin of this schedule has been lost. Since MVWC's manager has indicated that he intends to put new customers on metered service, the Branch is recommending a new metered rate schedule which conforms to the water rate design policy established by D.86-05-064 (i.e. one commodity block, service charges which recover up to 50% of fixed costs and phasing out lifeline) and which should be approximately equivalent to the flat rate schedule for an average user.

The Branch recommends that the Commission authorize an increase in gross revenue of \$12,865 or 93.2%. 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 customer would increase from \$10.00 to \$19.32 (93.2%) per month. 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. MWC should be put on notice that it must ascertain and book the costs of plant contributed by the Meadow Ranch Subdivision developer as required by the uniform system of accounts, and must reflect those entries in its 1988 annual report to the Commission. Should it fail to make the tariff filing required by D.87-09-026 and fail to collect a contributions tax gross-up, it, not its ratepayers, is at risk for any additional income taxes on contributions that TRA-86 imposes.
5. MWC should be required to record on its books of account the plant in service and depreciation reserve balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1988 annual report to the Commission. Those balances are \$42,332 for plant in service and \$23,864 for depreciation reserve as of December 31, 1987.
6. MWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. MWC should be allowed to file an advice letter to begin recovering the reasonable costs of its installation at Well No. 1 after it has been placed in service. The cost of the production meter to be placed at the Meadow Ranch well should not be recoverable from customers since it should have been part of the contribution received from the developer.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Mar Vista 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. 1A and 2AR. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. Mar Vista Water Company shall ascertain and book the costs of plant contributed by the Meadow Ranch Subdivision developer as required by the uniform system of accounts, and shall reflect those entries in its 1988 annual report to the Commission.
3. Mar Vista Water Company shall record on its books of account the plant in service and depreciation reserve balances upon which the average amounts adopted by this resolution are based, and shall reflect those balances in its 1988 annual report to the Commission.
4. Mar Vista 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. Mar Vista Water Company is authorized to file an advice letter to begin recovering the reasonable costs of its installation at Well No. 1 after it has been placed in service.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on July 8, 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

Mar Vista Water Company

SUMMARY OF EARNINGS
Test Year 1988

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenues</u>					
Metered	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Flat Rate	13,800	34,500	13,800	34,500	26,665
Total Revenues	13,800	34,500	13,800	34,500	26,665
<u>Operating Expenses</u>					
Purchased Power	2,400	2,400	3,195	3,195	3,195
Payroll	15,500	15,500	10,400	10,400	10,400
Materials	1,148	1,148	398	398	398
Contract Work	0	0	0	0	0
Office Supp. & Exp.	500	500	651	651	651
Insurance	6,500	6,500	4,661	4,661	4,661
Professional Services	500	500	769	769	769
General Expense	1,520	1,520	527	527	527
Vehicle Expense	1,700	1,700	693	693	693
Office Serv. & Rent	1,732	1,732	600	600	600
Subtotal	31,500	31,500	21,894	21,894	21,894
Depreciation	815	815	847	847	847
Property Taxes	205	205	162	162	162
Payroll Taxes	0	0	1,305	1,305	1,305
Income Taxes	0	454	0	2,357	562
Total Deductions	32,520	32,974	24,208	26,565	24,770
Net Revenue	(18,720)	1,526	(10,408)	7,935	1,895
<u>Rate Base</u>					
Average Plant	52,332	52,332	42,332	42,332	42,332
Average Depr. Res.	23,457	23,457	24,287	24,287	24,287
Net Plant	28,875	28,875	18,045	18,045	18,045
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l & Suppl.	0	0	0	0	0
Rate Base	28,875	28,875	18,045	18,045	18,045
Rate of Return	(Loss)	5.28%	(Loss)	43.97%	10.50%

Appendix B
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Mar Vista Water Company
Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

Quantity Rate:

All water, per 100 cu.ft. \$ 0.47 (I)

Service Charge:

	<u>Per Service Connection</u> (C)	
	<u>Per Year</u> :	<u>Per Month</u>
	<u>Charge</u> :	<u>Surcharge</u>
For 5/8 x 3/4-inch meter.....	\$ 66.00 (I)	\$ 8.30
For 3/4-inch meter.....	72.00	9.15
For 1-inch meter.....	99.00 (I)	12.50

The Service Charge is a readiness-to-serve charge which (D)
is applicable to all metered service, and to which is (N)
to be added the monthly charge computed at the Quantity |
Rate. (N)

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Water Bond Act loan authorized by Decision No. 91921.

ANNUAL METERED SERVICE (Continued)

SPECIAL CONDITIONS

1. The service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay the pro-rated service charge in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. (C) (D)
2. The opening bill for metered service, except upon conversion from flat rate service, shall be the annual service charge. Where initial service is established after the first day of any year, the portion of such annual service charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. (C) (C)
If the service is not continued for at least one year after the date of initial service, no refund of the initial annual charge shall be due the customer.

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Mar Vista Water Company
Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

	Per Service Connection Per Year	
	<u>Charge</u>	<u>Surcharge</u>
For a single-family residential unit, including premises.....	\$ 231.84 (I)	\$109.80

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$231.84 per one inch or less service connection, per year. The total surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. 91921. (I)

Appendix C

Mar Vista Water Company

COMPARISON OF RATES

Flat Rate Service

	Per Service Connection Per Month		
	Present Rates	Recommended Rates	Increase

For a single-family residential unit, including premises	\$10.00	\$19.32	\$9.32
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Metered Rate Service

There are currently no customers under the metered rate schedule.

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Mar Vista Water Company

ADOPTED QUANTITIES
Test Year 1988

Net-to-gross Multiplier	--
Federal Tax Rate	15%
State Tax Rate	9.3%
Uncollectible Rate	--

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.	
Rate Schedule	A-1P
Effective Date of Schedule	7/1/87
Kwh Used - Summer	20,616
Kwh Used - Winter	12,442
Kwh Used - Total	33,058
\$/Kwh - Summer	0.10096
\$/Kwh - Winter	0.08297
Summer Charges	\$ 2,081
Winter Charges	\$ 1,032
Energy Commission Charge (\$0.0002/kwh)	\$ 7
Service Charge	\$ 75
Total Purchased Power	\$ 3,195

2. Purchased Water None

3. Pump Tax - Replenishment Tax None

4. Payroll \$10,400
Payroll Taxes \$ 1,305

5 Ad Valorem Taxes \$ 162
Tax Rate 1.018%

Assessed Value \$15,879

Service Connections

Flat Rate 115
Metered Rate 0

Appendix D
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Mar Vista Water Company

ADOPTED TAX CALCULATIONS
Test Year 1988

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$26,665	\$26,665
2.	O & M Expenses	21,894	21,894
3.	Taxes Other than Income	1,467	1,467
4.	Tax Depreciation	847	847
5.	Interest	0	0
6.	State Tax	0	228
7.	Taxable Income for State Tax	2,457	
8.	State Tax (9.3%)	228	
9.	Taxable Income for FIT		2,229
10.	Federal Income Tax (15%)		334
11.	Total Income Tax		562