

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3405
July 22, 1988

R E S O L U T I O N

(RES. W-3405) WENDELL WATER COMPANY (WVC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$1,281
OR 21.2% ADDITIONAL ANNUAL REVENUE.

WVC, by draft advice letter submitted to the Water Utilities Branch (Branch) on January 11, 1988, 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 \$3,330 or 55.2%. WVC estimates that 1988 gross revenue of \$6,030 at present rates would increase to \$9,360 at proposed rates to produce a rate of return on rate base of 4.95%. WVC serves 25 flat rate customers near Sebastopol in Sonoma County.

The present rates have been in effect since April 27, 1983 pursuant to Resolution W-3090 dated April 20, 1983 which authorized a general rate increase.

The Branch made an independent analysis of WVC's summary of earnings. Appendix A shows WVC'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.

WVC and the Branch agree on flat rate revenue at present rates, but the Branch's estimate of revenue at proposed metered rates is very much lower than WVC's. WVC recently installed meters for all of its customers and, having no previous consumption records, used the experience of other water utilities in the area to estimate its consumption per customer per month. WVC began reading meters in February and found usage to be much lower than it had estimated. The Branch used those figures and pumping power records to extrapolate a figure for the entire year.

WVC's estimates of certain expenses have been reallocated to match the Uniform System of Accounts. There are no differences between the Branch and WVC for those items. The items that have been reallocated are: other plant maintenance (\$2,027) to other volume related expense (\$250), contract work (\$1,500), and materials (\$277); and professional services (\$750) to office services and rent (\$300), office supplies (\$50), general expense (\$100), and professional services (\$300).

The differences in estimates for operating expenses are in purchased power, management salary, and uncollectibles.

The Branch's estimate of purchased power is lower than WWC's because the Branch estimated lower metered water usage as explained above. The Branch used the latest Pacific Gas and Electric Company rates. WWC could not explain how its estimate was derived.

WWC recorded \$600 in management salary in 1987 and estimated \$720 for 1988. The Branch escalated the 1987 figure to \$630 using the labor escalation factor provided by the Advisory Branch of Commission Advisory and Compliance Division.

WWC did not include an estimate for uncollectibles. The Branch used a nominal 1% figure which is consistent with WWC's uncollectible levels from previous years.

The Branch's estimate of depreciation expense is considerably less than WWC's because the Branch's estimate of plant in service is much lower than WWC's and the Branch used a lower depreciation rate. The Branch recalculated the depreciation accrual rate in accordance with the Commission's Standard Practice U-4, "Determination of Straight Line Remaining Life Depreciation Accruals," to arrive at a rate of 2.8%. WWC inappropriately used accelerated depreciation applied to its higher plant estimate.

WWC did not include income taxes in its estimate. The Branch's figures for income taxes reflect 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 differences in plant in service, depreciation reserve and working cash.

The Branch's estimate of plant in service is considerably lower than WWC's. WWC's estimates of average plant in service and average depreciation reserve are inconsistent with Resolution W-3090 dated April 20, 1983 in WWC's last general rate increase proceeding which established a rate base of \$7,570 and a depreciation rate of 1.9%. WWC contends that the past records for plant are unavailable, but the Branch's research found the Resolution W-3090 rate base for 1983 to be consistent with earlier records. The Branch brought the 1983 figures forward adjusting for plant additions and retirements and calculated the 1988 plant and depreciation reserve averages shown in Appendix A.

To prevent future inconsistencies between the figures adopted by the Commission and WWC's annual reports, the Branch recommends that WWC 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 \$22,515 for plant in service and \$12,330 for depreciation reserve as of December 31, 1987.

The Branch's estimate of working cash is higher than WWC's. The Branch followed the simplified method for a water utility using monthly billing at metered rates as prescribed in the Commission's Standard Practice U-16, "Determination of Working Cash Allowance." WWC also used Standard Practice U-16 in its workpapers, but without explanation carried a lower figure forward to its summary of earnings.

After recasting into the standard ratemaking format of Appendix A, WWC's proposed summary of earnings shows a rate of return of 4.95%. 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.

WWC was informed of the Branch's differing views of revenues, 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 21, 1988. No letters of protest were received.

On April 6, 1988 an informal public meeting attended by 18 people representing 10 of WWC's 25 customers was held in Rohnert Park. A Branch engineer conducted the meeting and WWC's manager was there to answer questions. Customers expressed concern about water quality, the possibility of filtering out silt, iron and manganese from the water, the condition of the fence around the pumping plant, and weeds around the pumping plant. When they were informed that the water is healthful and filtering would increase their water costs substantially, they indicated that they would prefer to forego filtering. WWC's manager promised that the fence would be repaired and the weeds cut down.

A Branch engineer conducted a field investigation of WWC's service area on February 18, 1988. Visible portions of the system were inspected, pressures checked, and company records examined. The investigation revealed that service is satisfactory. No major water supply or water quality problems were found. The Sonoma County Environmental Health Department was contacted and confirmed that WWC's water meets all applicable health standards.

WWC has one well in good condition and an abundant ground water supply. With this increase it will begin billing all of its customers at metered rates. No additional conservation measures are needed.

During the last general rate case in 1983 it was determined that management of WWC had shifted from Ewell Baker, Jr. to Suzan Jensen-Weese. Resolution W-3090 ordered WWC to file an application requesting Commission authorization for a transfer of ownership, but that was never done. The situation today is unchanged. By letter dated April 1, 1988, Ewell H. Baker, Jr. stated that he remains WWC's owner, that Suzan Jensen-Weese is the manager on his behalf,

and that he does not wish to request a change in ownership. Suzan Jensen-Weese concurs. Accordingly, the Branch recommends that the Commission's earlier order requiring WWC to apply for a transfer of ownership not be renewed.

WWC currently bills at flat rates but recently installed meters for all of its customers. It does not have a metered rate schedule. The Branch recommends a service charge that recovers 50% of the fixed costs, 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 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 old flat rate schedule would be canceled.

The Branch recommends that the Commission authorize an increase in gross revenue of \$1,281 or 21.2%. This increase provides a 10.50% rate of return on rate base in test year 1988.

At the Branch's recommended rates shown in Appendix B, the bill for a typical customer using the Branch's estimated system average of 1,480 cubic feet per month would increase from \$20.10 (flat rate) to \$24.32 (metered rate) per month or 21.0%. 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 adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. WWC should be required to use a 2.8% depreciation accrual rate until such time as a future straight line remaining life depreciation study justifies use of a different rate.
5. WWC 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 \$22,515 for plant in service and \$12,330 for depreciation reserve as of December 31, 1987.
6. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Wendell Water Company to file an advice letter incorporating the summary of earnings and rate schedule attached to this resolution as Appendices A and B respectively, and concurrently to cancel the presently effective rate Schedule No. 2R. Such filing shall comply with General Order 96-A. The effective date of the rate schedule shall be the date of filing.
2. Wendell Water Company shall use a 2.8% depreciation accrual rate until such time as a future straight line remaining life depreciation study justifies use of a different rate.
3. Wendell 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. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on July 22, 1988. The following commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

Wendell 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	\$ 9,360	\$ 0	\$ 5,448	\$ 7,311
Flat Rate	6,030	0	6,030	0	0
Total Revenues	<u>6,030</u>	<u>9,360</u>	<u>6,030</u>	<u>5,448</u>	<u>7,311</u>
<u>Operating Expenses</u>					
Purchased Power	1,086	1,086	992	992	992
Other Volume Related	0	0	250	250	250
Materials	0	0	277	277	277
Contract Work	0	0	1,500	1,500	1,500
Other Plant Maintenance	2,027	2,027	0	0	0
Management Salary	720	720	630	630	630
Uncollectibles	0	0	60	54	73
Office Serv. & Rent	0	0	300	300	300
Office Supplies	150	150	200	200	200
Professional Services	750	750	300	300	300
General Expense	80	80	180	180	180
Regulatory Comm. Exp.	123	123	123	123	123
Subtotal	<u>4,936</u>	<u>4,936</u>	<u>4,812</u>	<u>4,806</u>	<u>4,825</u>
Depreciation	2,200	2,200	560	560	560
Property Taxes	350	350	350	350	350
Payroll Taxes	0	0	0	0	0
Income Taxes	0	0	71	0	362
Total Deductions	<u>7,486</u>	<u>7,486</u>	<u>5,793</u>	<u>5,716</u>	<u>6,097</u>
Net Revenue	(1,456)	1,874	237	(268)	1,214
<u>Rate Base</u>					
Average Plant	68,784	68,784	22,515	22,515	22,515
Average Depr. Res.	31,523	31,523	12,049	12,049	12,049
Net Plant	37,261	37,261	10,466	10,466	10,466
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	300	300	800	800	800
Mat'l & Suppl.	300	300	300	300	300
Rate Base	37,861	37,861	11,566	11,566	11,566
Rate of Return	(Loss)	4.95%	2.05%	(Loss)	10.50%

APPENDIX B
Wendell Water Company
Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Wendell Lane in Sebastopol, Sonoma County.

RATES

Service Charge:	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter.....	\$11.30
 Quantity Rate:	
All water, per 100 cu. ft.	0.88

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

COMPARISON OF RATES

All customers are being converted from flat to metered rates. A comparison of the present flat rates and the Branch's proposed metered rates is shown below:

<u>Usage, 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$20.10	\$11.30	(\$ 8.80)	(43.8%)
5	20.10	15.70	(4.40)	(21.9)
10	20.10	20.10	0.00	0.0
14.8 (Average)	20.10	24.32	4.22	21.0
20	20.10	28.90	8.80	43.8
30	20.10	37.70	17.60	87.6
40	20.10	46.50	26.40	131.3
50	20.10	55.30	35.20	175.1

APPENDIX D
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Wendell Water Company

ADOPTED QUANTITIES
Test Year 1988

Net-to-gross Multiplier:	--
Federal Tax Rate:	15%
State Tax Rate:	9.3%
Local Franchise Rate:	0.0%
Uncollectible Rate:	1.0%

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.

Rate Schedule	A-1P
Effective Date of Schedule	7/1/87
Kwh Used - Summer	6,485
Kwh Used - Winter	3,137
Kwh Used - Total	9,622
\$/Kwh - Summer	0.10096
\$/Kwh - Winter	0.08297
Summer Charges	\$ 655
Winter Charges	\$ 260
Energy Com. Charge (\$0.0002/Kwh)	\$ 2
Service Charge	\$ 75
Total Purchased Power	\$ 992

2. Purchased Water

None

3. Pump Tax - Replenishment Tax

None

4. Payroll

Management	\$ 630
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5 Ad Valorem Taxes

Tax Rate	\$ 350
Assessed Value	1.182%
	\$ 29,610

Service Connections

All metered - 5/8 x 3/4-inch	25
Metered water sales used to design rates	4,440 Ccf

APPENDIX D

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Wendell Water Company

ADOPTED TAX CALCULATIONS
Test Year 1988

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 7,311	\$ 7,311
2.	O & M Expenses	4,825	4,825
3.	Taxes Other than Income	350	350
4.	Tax Depreciation	560	560
5.	Interest	0	0
6.	Taxable Income for State Tax	1,576	
7.	State Tax (9.3%)	147	147
8.	Taxable Income for FIT		1,429
9.	Federal Income Tax (15%)		215
10.	Total Income Tax		362