

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3407
August 24, 1988R E S O L U T I O N

(RES. W-3407) SIERRA CITY WATER WORKS (SCWW).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$7,100 OR 121.7% ADDITIONAL ANNUAL REVENUE.

SCWW, by draft advice letter accepted by the Water Utilities Branch (Branch) on May 6, 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 \$7,100 or 121.7%. SCWW estimates that 1988 gross revenues of \$5,832 at present rates would increase to \$12,932 at proposed rates and would produce a rate of return of 11.11% on rate base. SCWW serves 14 metered and 58 flat rate customers in the unincorporated community of Sierra City, Sierra County.

SCWW operated for many decades as Loeffler Water Supply before it was first brought under Commission jurisdiction in July, 1981. The present tariff rates were officially established on August 22, 1981.

The Branch made an independent analysis of SCWW's summary of earnings. Appendix A shows SCWW's and the Branch's estimated summary of earnings at present, requested and adopted rates. Because the Branch provided extensive advice and assistance to SCWW while it was drafting its request, there was no disagreement on the proper levels for most items. Appendix A shows differences in property taxes, payroll taxes, income taxes and working cash.

SCWW's 1987 recorded property taxes were \$308 at a tax rate of 1.000% of assessed value. The Branch determined that property taxes for 1988 would be about \$325 based on an evaluation of plant improvements that SCWW expects to make during 1988.

SCWW did not estimate an amount for payroll taxes. The Branch's estimate of \$471 is based on the standard payroll tax rates applied to its estimate of payroll.

Except for an unexplained \$300 at proposed rates, SCWW did not include income tax in its calculations. The Branch's figures reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1988.

SCWW included an unsupported estimate of \$1,500 for working cash. Because most of its revenues are from flat rate customers who are billed quarterly in advance and from service charges to metered customers who will also be billed in advance, the Branch estimated that no working cash allowance is warranted.

SCWW's proposed summary of earnings shown in Appendix A indicates a rate of return of 11.11% after its requested increase. The Branch's summary of earnings shows a rate of return of 8.70% at the Branch's recommended rates. This rate of return, although lower than the 10.25% to 10.75% rate of return range recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small water utilities with 100% equity financing, results in SCWW's being granted the total revenue increase requested.

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 expense items. 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 SCWW.

SCWW was informed of the Branch's differing views of property taxes, payroll taxes, income taxes and working cash and has stated that it accepts the Branch's estimates.

- o Branch engineers conducted a field inspection of SCWW's service area and facilities on March 22, 1988. The water system was inspected, pressures and methods of operations checked, customers interviewed, and company records inspected. The present owner took over a deteriorated system in 1985 and has done extensive rebuilding since that time. He has reconstructed the collectors at the water sources, replaced many of the mains, put in new service connections and hydrants, and made many other badly needed improvements. The system uses no pumping but relies on very high pressures produced by having sources situated above the service area. Pressure measured on the highest portion of the system was found to be below the standard established by G.O. 103, "Rules Governing Water Service, Including Minimum Standards for Design and Construction," but customers indicated that they did not consider it a problem. Overall, service is good. There are no outstanding Commission orders requiring system improvements.

SCWW's water source is a series of springs in the hills above its service area. After filtration, water goes to a 5,000 gallon storage tank to meet peak demand, and then into the system. The system is well maintained and loss due to leakage has been minimized. While water supplies are presently adequate, their long term reliability during drought is not well known and SCWW has included letters in its bills encouraging its customers to practice voluntary conservation. As part of this rate case, SCWW is asking that the Commission establish a metered service schedule and give it the authority to meter customers as an additional conservation measure. The Branch concurs. SCWW's owner has demonstrated his commitment to providing reliable water service and, under the circumstances, the Branch believes that no additional Commission orders regarding conservation are necessary.

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

A notice of the proposed rate increase and public meeting was mailed to each customer on May 12, 1988. No responses were received.

On June 2, 1988 the Branch conducted an informal public meeting attended by sixteen customers in Sierra City to explain the rate increase request and to answer customers' questions. There were no complaints of water quality or service problems. The general consensus was that the owner has done much to improve the system and is providing good service at reasonable rates. One customer, however, objected to the increase as being too great and stated that the water system was satisfactory as it is and should have no further improvements.

SCWW's present rates consist of a single flat rate charge. The Branch's recommended rate design would double the flat rate charge and implement a metered rate schedule that conforms to the Commission's rate design policy for water companies as set forth in Decision No. 86-05-064. That policy calls for metered schedules having no more than three commodity blocks, service charges which recover up to 50% of fixed costs, and phasing out lifeline. At the projected level of usage, the average bills for customers under the metered rate schedule would be approximately the same as those of flat rate customers.

On March 14, 1988 SCWW filed Application No. 88-03-050 requesting Commission authorization to incorporate, and on May 6, 1988 the Branch mailed its report recommending ex parte approval. The matter is pending.

In February, 1982 the Commission adopted a policy of capping small water company rate increases at 100% per year. The revenues deferred by capping are made up with interest through rates approved for the subsequent year. Rates are lowered to their final level in the third year when all deferred revenues and interest have been recovered.

The Branch's proposal deviates from this policy by recommending the full increase be granted now rather than 100% now, the remainder (10.8% plus interest) in twelve months, and then dropping rates to their final level in 24 months. In this case there were no customer protests; the current rates were established seven years ago; the proposed rates are not so high as to be burdensome; and the increase for most customers will be 100% with the remainder having an opportunity to control their bills by reducing usage. The Branch believes that imposing two rate increases and then a decrease would result in more complication for this small company and its customers than was intended by the Commission's policy.

The Branch recommends that the Commission authorize an increase in gross revenue of \$7,100 or 121.7%. This increase provides an 8.70% rate of return on rate base in test year 1988 and results in SCWW's being granted the full revenue increase it requested.

At the recommended rates shown in Appendix B, the monthly bills for flat rate customers would double from \$6.00 to \$12.00 per month. The average monthly bill for metered and submetered users would be \$11.57. 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.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Sierra City Water Works 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 General Flat Rate Service Schedule. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. For the purpose of earnings tests in any future offset rate increase requests for Sierra City Water Works, a rate of return on rate base not exceeding 10.50% shall be considered reasonable.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 24, 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

SIERRA CITY WATER WORKS

SUMMARY OF EARNINGS
(Test Year 1988)

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat Rate	\$ 5,832	\$ 8,352	\$ 5,832	\$ 8,352	\$ 8,352
Metered	0	4,580	0	4,580	4,580
Total Revenue	5,832	12,932	5,832	12,932	12,932
<u>Operating Expenses</u>					
Purchased Power	0	0	0	0	0
Employee Labor	2,000	2,000	2,000	2,000	2,000
Materials Expense	300	300	300	300	300
Contract Work	0	0	0	0	0
Vehicle Expense	700	700	700	700	700
Other Plant Maintenance	50	50	50	50	50
Office Salaries	350	350	350	350	350
Management Salaries	2,500	2,500	2,500	2,500	2,500
Office Serv. & Rental	300	300	300	300	300
Office Supplies	50	50	50	50	50
Professional	200	200	200	200	200
Reg. Com. Exp.	90	90	90	90	90
General Expense	200	200	200	200	200
Subtotal Expenses	6,740	6,740	6,740	6,740	6,740
Depreciation	838	838	838	838	838
Property Taxes	400	400	325	325	325
Payroll Taxes	0	0	471	471	471
Income Taxes	0	300	0	1,044	1,044
Total Deductions	7,978	8,278	8,374	9,418	9,418
Net Revenue	(2,146)	4,654	(2,542)	3,514	3,514
<u>Rate Base</u>					
Average Plant	42,959	42,959	42,959	42,959	42,959
Average Depr. Reserve	3,060	3,060	3,060	3,060	3,060
Net Plant	39,899	39,899	39,899	39,899	39,899
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	1,500	1,500	0	0	0
Mat'l & Supp.	480	480	480	480	480
Rate Base	\$41,879	\$41,879	\$40,379	\$40,379	\$40,379
Rate of Return	(Loss)	11.11%	(Loss)	8.70%	8.70%

APPENDIX B

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SIERRA CITY WATER WORKS

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Sierra City located on Highway 49 in Sierra County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rate:	
All water, per 100 cu.ft.	\$ 0.44
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 9.40
For 3/4-inch meter	10.35
For 1-inch meter	14.15
For 1 1/2-inch meter	18.80
For 2-inch meter	25.40

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
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SIERRA CITY WATER WORKS

Schedule No. 2

(N)

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community known as Sierra City on Highway 49
in Sierra County.

RATE

Per Service Connection
Per Month

For each service connection
not exceeding 3/4" diameter

\$ 12.00

(I)

SPECIAL CONDITIONS

(T)

1. All service not covered by the above classification will
be furnished only on a metered basis.

(C)

(C)

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 C
SIERRA CITY WATER WORKS
COMPARISON OF RATES

A comparison of present rates with rates recommended by the Branch is shown below:

Flat Rate Service

	<u>Per Service Connection Per Month</u>		
	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>
For each service connection not exceeding 3/4" diameter	\$ 6.00	\$ 12.00	100%

Metered Rate Service

The utility currently has no metered rate tariff. However, the total projected number of metered rate users (including submetered users) is 33, and the total projected annual metered rate revenue is \$4,580, giving an average monthly metered bill of \$11.57.

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SIERRA CITY WATER WORKS

ADOPTED QUANTITIES
1988 Test Year

Name of Company:	Sierra City Water Works	
Federal Tax Rate		15%
State Tax Rate		9.3%
Business License		None
Uncollectible Rate		0.0%

Expenses

1. Purchased Power		None
2. Payroll:		
Office Salaries	\$	350
Management Salaries		2,500
Employee Labor		2,000
Total		4,850
3. Payroll Taxes	\$	471
4. Ad Valorem Taxes	\$	325
Tax Rate		1.000%
Assessed Value		\$32,500

Service Connections

Metered:		
5/8 x 3/4-inch	3	
3/4-inch	6	
1-inch	4	
2-inch	1	(with 20 submetered users)
Total metered	14	
Flat Rate	58	
Total Services	72	

Metered water sales used to design rates: 5,712 Ccf

APPENDIX D
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SIERRA CITY WATER WORKS

ADOPTED TAX CALCULATIONS
1988 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$12,932	\$12,932
2.	Expenses	6,740	6,740
3.	Taxes Other Than Income	796	796
4.	Depreciation Expense	838	838
5.	Interest	0	0
6.	State Tax (@ 9.3%)		424
7.	Taxable Income for State Tax	4,558	
8.	State Tax	424	
9.	Taxable Income for FIT		4,134
10.	Federal Income Tax (@ 15%)		620
11.	Total Income Tax		1,044