

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3408
September 14, 1988

RESOLUTION

(RES. W-3408) TAHOE CEDARS WATER COMPANY (TCWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$20,250 OR 15.1% ADDITIONAL ANNUAL REVENUE.

TCWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 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 \$34,920 or 26.0%. TCWC estimates that 1988 gross revenue of \$134,519 at present rates would increase to \$169,439 at proposed rates and would produce a rate of return of 10.50% on rate base. TCWC serves 831 flat rate and 15 metered customers near Tahoma, El Dorado and Placer Counties.

The present rates became effective November 18, 1985 pursuant to Resolution No. W-3289 dated November 13, 1985 which authorized a general rate increase.

The Branch made an independent analysis of TCWC's summary of earnings. Appendix A shows TCWC'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 estimated operating expenses are in purchased power, employee labor, vehicle expense, office and storage rental, office supplies and expense, accounting and legal, and regulatory commission expense.

The Branch's estimate of purchased power expense is higher than TCWC's. TCWC's projected energy usage in the test year was inappropriately based on thirteen months of energy bills in 1987 rather than twelve. The Branch's figure was derived from the latest Sierra Pacific Power Company rates applied to the corrected recorded 1987 energy usage. The combination of increased power rates and lower power consumption made the Branch's figure very close to TCWC's.

TCWC estimated employee labor at \$32,500 of which \$30,000 would be expensed and the remainder charged to plant construction. This is far higher than its highest recorded employee labor in past years. The Branch used the local

public utilities district's job descriptions and pay ranges as furnished by TCWC to arrive at its estimate. TCWC has historically used approximately the equivalent of one full-time employee, so the Branch's employee labor figure corresponds to the first step of a mid-level maintainer/operator, less an allowance for payroll chargeable to plant construction.

The Branch's estimate of vehicle expense is lower than TCWC's. The Branch accepted TCWC's implied vehicle mileage and applied a rate of \$0.21 per mile, the rate currently allowed by the Internal Revenue Service for business use. TCWC offered no support for its higher costs per mile.

For its office and equipment storage, TCWC uses a portion of a vacant house that TCWC's owner is trying to sell. During its 1985 rate case, TCWC sought to charge \$2,400 per year for office and storage rentals, and for 1988 it seeks an allowance of \$4,200. No firm basis was advanced for either figure. The Branch's \$1,986 estimate represents the amount allowed by the Commission in TCWC's last general rate case adjusted for inflation. The escalation factors the Branch used for this and other accounts were those provided by the Advisory Branch of the Commission Advisory and Compliance Division.

TCWC based its \$4,750 estimate of office supplies and expenses on its 1987 recorded expenditures which were considerably higher than previous years' levels. TCWC could not provide support for portions of its 1987 amount. The Branch used the average of the last three years' recorded figures adjusted for inflation to arrive at its \$4,160 estimate.

TCWC has recorded precisely \$1,800 on its books for accounting and legal expenses each year for at least the last three years, and it included the same figure as its test year estimate. TCWC acknowledges that what it records is not necessarily what it actually spends for legal and accounting assistance. It also acknowledges that the amounts it does incur are primarily for its owners' legal fees, tax preparation, and so forth; it typically uses outside legal and accounting services very infrequently. The Branch has therefore included only a modest allowance for occasional legal and bookkeeping consultation.

TCWC did not include an amount for regulatory commission expense. The Branch included \$100 in recognition of the out-of-pocket costs of pursuing this rate case, and other occasional expenses in this category.

TCWC's \$8,975 in depreciation expense is slightly higher than the Branch's \$8,939 because TCWC did not subtract its retirements from plant when calculating its depreciation expense and reserve.

The Branch's \$2,135 property tax estimate is the sum of TCWC's actual 1987/1988 property tax bills. TCWC's \$3,000 figure included property taxes on the house it uses for an office and storage. The Branch excluded those taxes because, as noted earlier, the property belongs to TCWC's owners rather than to the utility and an amount for its rental has been included in both the Branch's and TCWC's estimates.

The difference in payroll taxes is due to the difference in payroll explained earlier.

Both the Branch's and TCWC's income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rate for 1988. The difference is due to different estimates of other items.

The difference in rate base is due to differences in average depreciation reserve and working cash.

TCWC calculated its average depreciation reserve as \$165,540 while the Branch's figure is \$164,021. The difference is due to TCWC's not having deducted the test year's estimated plant retirements from reserve, and from having made another inadvertent error in its figures.

TCWC showed an arbitrary \$10,000 for its working cash. The purpose of a working cash allowance is to pay a return to utility owners for funds invested in the company to meet expenses before receipt of the corresponding revenues. Because approximately 90% of TCWC's revenues come from billings rendered six months in advance, it receives its revenues well before its expenses come due. The Branch therefore did not include an amount for working cash.

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

TCWC has requested a rate of return of 10.50% on rate base, and the Water Branch concurs. This is 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 water utilities.

A notice of the proposed rate increase and public meeting was mailed to all customers on April 27, 1988. The Branch subsequently received seventeen letters from customers protesting the increase and one letter in support. Among those were five opposed to the increase in general, seven objecting to TCWC's request to eliminate its seasonal rate, three urging that its hydrant replacement program be accelerated, and one each mentioning water quality, low pressures, and service in general.

These same objections were voiced in the public meeting held in Tahoe City on May 17, 1988 to explain the increase request, receive customer input and answer questions. Two Water Branch engineers conducted the meeting; TCWC's owner was there to represent the utility. Fifteen customers attended and much of the discussion centered around TCWC's request to eliminate seasonal rates. In response to their objections, TCWC's owner pointed out that seasonal rates complicate billing and record keeping, that all but a small fraction of the utility's costs are fixed and do not decrease when customers disconnect during the off season, and that the few variable costs saved are partially offset by increased costs of turning service on and off. The owner also claimed that some customers cheat by turning on their service themselves for short periods during the off season.

In response to questions about the hydrant replacement schedule, TCWC's owner pointed out that the utility is not required to install hydrants except as part of new subdivision developments or water main replacement projects, and that hydrant installation is relatively expensive. He stated that he has, however, entered into an agreement with the local homeowners committee and will install hydrants as the group purchases them.

The Branch recently responded by letter to each of the customers who wrote to protest TCWC's proposed increase. The response conveyed the results of the Branch's investigation and explained why it is recommending an increase.

A Branch engineer made a field inspection of TCWC's facilities and records during the week of April 11, 1988. He checked visible portions of the system and methods of operation, measured water pressures, audited the utility's books and talked to customers. The Branch's engineer found the system to be in good condition and well maintained; TCWC has regularly replaced and upgraded its source, storage and distribution facilities. Customers generally felt that water quality and pressure are good, that the company responds to problems quickly, and that service in general is good.

One exception to its otherwise good service is that about 3% of TCWC's connections have water pressure ranging as low as 25 psi (pounds per square inch), whereas G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction," calls for a minimum pressure of 40 psi. Some of these low pressure connections date back to before 1975 when the G.O. 103 standard was 25 psi. When the requirements were increased, they were to apply to subsequent construction only; water utilities were not required to meet the new, higher standards with their old plant. The few low pressure customers not in this pre-1975 category live at the extreme upper end of the system near the storage tank and reportedly knew when they constructed their homes that pressure would be slightly low. The cost to bring all customers' pressures up to the later 40 psi standard would be excessive. If and when the number of customers in the area grows, it may be worthwhile to install special facilities to increase their pressures, but for the present the Branch recommends that TCWC not be ordered to make changes.

There are no outstanding Commission orders requiring system improvements. According to the California Department of Health Services, TCWC's water meets all state health standards.

TCWC's primary water source is a deep well in its service area near Lake Tahoe. The well is in good condition and will continue to supply the system for the foreseeable future, although the water level has dropped somewhat this year because of the drought. TCWC has facilities in place and can use Lake Tahoe as a backup source, so there is little prospect of shortage. An association of Lake Tahoe's local water purveyors provided each of its member companies with conservation literature which TCWC distributed to its customers with their bills. In addition, the owner makes it a point to tour the service territory periodically to watch for water wasters. No other conservation measures should be ordered at this time.

TCWC's present rates consist of a seasonal flat rate schedule, an annual general metered schedule and an annual large general metered schedule. The Branch recommends that the revenue requirement be spread so as to produce approximately the same overall percentage increases to flat and metered customers.

During the last general rate case the large general metered schedule was consolidated into the general metered schedule but, through an oversight, the superseded schedule was not canceled. There are no longer customers on the large general metered schedule and the Branch recommends it be canceled with this increase.

The current seasonal flat rate schedule allows customers to take service for only the summer season (May through October), only the winter season, or both. At the recommended summary of earnings in Appendix A, 84.3% of TCWC's revenues will go to cover its fixed costs and only the remaining 15.7% covers variable costs. (Fixed costs were defined in detail by Commission Decision (D)86-05-064 - they generally include gross return on rate base plus all costs except purchased power, purchased water, chemicals, income taxes, uncollectibles, and any other costs which obviously vary with usage.)

Of TCWC's 831 flat rate customers, 93 take service for just the summer season. None take service for just the winter season. Since such a large proportion of TCWC's revenues (84.3%) must be used to support the system whether its customers are connected during the off season or not, and since only a relatively small number of customers disconnect during the off season, a strong argument can be made that it is inequitable in this case to allow seasonal customers to pay an amount so much less than the fixed costs of serving them. TCWC also points out that none of its five closest neighboring water purveyors (four of them Commission-regulated) have seasonal rates, and that even with the full increase it is requesting, its annual flat rate would be lower than theirs. TCWC would very much like to move to year-round rates.

In this instance, seasonal customers pay one-half of the rate annual customers pay, so abolishing the seasonal schedule would result in their rates more than doubling. The Branch recommends that in this general rate case the seasonal rate be increased to three-quarters of the annual rate. This would considerably narrow (but not eliminate) the gap between seasonal customers' rates and the fixed costs to serve them, but lessen the rate shock which immediate full parity would bring. To further lessen the impact, the season would be lengthened from six to eight months, extending from March 1 through November 1. During the next general rate case consideration should be given to eliminating the seasonal rate. Since all connections on the seasonal rate are presumably second homes or rentals, this should not cause an undue hardship for seasonal customers.

For the general metered rate customers (larger commercial connections and a state park), the Branch recommends increasing both the service and quantity charges by approximately the overall percentage increase and eliminating the lifeline discount. These are very high volume commercial users and moving toward service charges that generate a larger fraction of the fixed costs would result in very high service charges - even higher than those on the flat rate schedule. By retaining the present ratio of service charges to quantity charges, bills would be about the same under the flat rate as under

the metered schedule for the average residential user. Since as much as 90% of TCWC's revenues come from its flat rate customers, it already recovers more than its fixed costs through service charges. This is consistent with the Commission's rate design policy for water companies established by D.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 metered service charge.

The Branch recommends that the Commission authorize an increase in gross revenue of \$20,250 or 15.1%. 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 the typical annual flat rate customer would increase from \$12.83 to \$14.33 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 recommendation are reasonable and should be adopted.
4. 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 Tahoe Cedars Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1A, 2SR and 7ML. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 14, 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

TAHOE CEDARS 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 Revenue</u>					
Flat Rate	\$120,813	\$152,073	\$120,813	\$152,073	\$138,933
Metered	13,706	17,366	13,706	17,366	15,836
Total Revenue	134,519	169,439	134,519	169,439	154,769
<u>Operating Expenses</u>					
Purchased Power	15,860	15,860	15,887	15,887	15,887
Employee Labor	30,000	30,000	23,400	23,400	23,400
Materials Expense	8,500	8,500	8,500	8,500	8,500
Contract Work	6,500	6,500	6,500	6,500	6,500
Vehicle Expense	5,985	5,985	4,350	4,350	4,350
Other Plant Maintenance	0	0	0	0	0
Office Salaries	5,100	5,100	5,100	5,100	5,100
Management Salaries	19,500	19,500	19,500	19,500	19,500
Office & Storage Rental	4,200	4,200	1,986	1,986	1,986
Office Supplies & Exp.	4,750	4,750	4,160	4,160	4,160
Accounting & Legal	1,800	1,800	200	200	200
Insurance	10,820	10,820	10,820	10,820	10,820
Reg. Com. Exp.	0	0	100	100	100
General Expense	2,380	2,380	2,380	2,380	2,380
Subtotal Expenses	115,395	115,395	102,883	102,883	102,883
Depreciation	8,975	8,975	8,939	8,939	8,939
Property Taxes	3,000	3,000	2,135	2,135	2,135
Payroll Taxes	4,269	4,269	4,025	4,025	4,025
Income Taxes	632	8,557	3,787	11,786	8,426
Total Deductions	132,271	140,196	121,769	129,768	126,408
Net Revenue	2,248	29,243	12,750	39,671	28,361
<u>Rate Base</u>					
Average Plant	454,790	454,790	454,790	454,790	454,790
Average Depr. Reserve	165,540	165,540	164,021	164,021	164,021
Net Plant	289,250	289,250	290,769	290,769	290,769
Less: Advances	0	0	0	0	0
Contributions	23,410	23,410	23,410	23,410	23,410
Plus: Working Cash	10,000	10,000	0	0	0
Mat'l & Supp.	2,750	2,750	2,750	2,750	2,750
Rate Base	\$278,590	\$278,590	\$270,109	\$270,109	\$270,109
Rate of Return	0.81%	10.50%	4.72%	14.69%	10.50%

APPENDIX B
Page 1

TAHOE CEDARS WATER COMPANY

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

The unincorporated territory including Tahoe Cedars Tract (T)
and vicinity, located near the community of Tahoea, El Dorado and (T)
Placer Counties.

RATES

Quantity Rate: (T)
All water, per 100 cubic feet \$ 0.56 (I)

Service Charge:	<u>Per Meter Per Year</u>	
For 5/8 x 3/4-inch meter	\$ 104.00	(I)
For 3/4-inch meter	114.00	
For 1-inch meter	156.00	
For 1 1/2-inch meter	208.00	
For 2-inch meter	280.00	
For 3-inch meter	519.00	
For 4-inch meter	705.00	(I)

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

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing July 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 fiscal year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly and quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.

(L)

(L)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of the fiscal year, the portion of such 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 fiscal year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

(D)

3. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.

(T)

(T)

APPENDIX B
Page 3

TAHOE CEDARS WATER COMPANY

Schedule No. 2SR

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished on an annual basis. (T)

TERRITORY

The unincorporated territory including Tahoe Cedars Tract and vicinity, located near the community of Tahoea, El Dorado and Placer Counties. (T)

RATES

	<u>Annual</u>	<u>Seasonal</u>	(C)
1. For a single-family residential unit either permanent or temporary.....	\$172.00	\$129.00	(I)
a. For each additional single-residential unit, either permanent or temporary, located on the same premises and served from the same service connection.....	\$108.00	\$ 81.00	(I)

SPECIAL CONDITIONS

1. The season shall be the eight-month period March 1 through November 1. (C)
(C)
2. The seasonal charge is due in advance. (T)
(D)
3. The above flat rates apply to service not larger than one-inch in diameter. (T)
(D)

APPENDIX B
Page 4

4. All service not covered by the above classifications shall be furnished only on a metered basis. (T)

5. For service covered by the above classifications, if the utility elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General Metered Service, effective as of the fifteenth day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day. (T)
(T)

6. Upon initially establishing service, the customer shall select either the seasonal rate or the annual rate and shall pay the full charge therefor. When service is established after the beginning of the season or year, the charge for that season or year will be the pro rata charge determined by the number of days remaining in the season or year compared to the total number of days in the season or year. Any unused portion of the initial charge will be credited to the following seasonal or annual service period, at the customer's option, provided, however, that if service is not continued or resumed the following season or year, no refund of the initial charge shall be due the customer. (T)
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(T)

APPENDIX C

Page 1

TAHOE CEDARS WATER COMPANY

COMPARISON OF RATES

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

Per Meter Or Service Connection Per Year

	Present Rates	Recommended Rates	Percent Increase	Composite Percent Increase
<u>Annual General Metered Service</u>				
Quantity Rates:				
First 300 cu.ft., per 100 cu.ft.	\$ 0.40			
Over 300 cu.ft., per 100 cu.ft.	0.49			
All water, per 100 cu.ft.		\$ 0.56		
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 87.00	\$ 104.00	19.5%	15.5%
For 3/4-inch meter	96.00	114.00	18.8	
For 1-inch meter	130.00	156.00	20.0	
For 1 1/2-inch meter	180.00	208.00	15.6	
For 2-inch meter	235.00	280.00	19.1	
For 3-inch meter	435.00	519.00	19.3	
For 4-inch meter	595.00	705.00	18.5	

Annual Residential Flat Rate Service

For a single residential unit, either permanent or temporary:

Annual	\$ 154.00	\$ 172.00	11.7%	15.0%
Eight month seasonal	77.00	129.00	68.8	

APPENDIX D

Page 1

TAHOE CEDARS WATER COMPANY
ADOPTED QUANTITIES

(1988 Test Year)

Name of Company:	Tahoe Cedars Water Company	
Federal Tax Rate:		15.0%
State Tax Rate:		9.3%
Business License:		\$ 25
Uncollectible Rate:		0.0%

Expenses

1. Purchased Power:		
Sierra Pacific Power Company		
Schedule		A-1
Effective Date of Schedule		5/1/88
Kwh		177,856
\$/Kwh		.08892
Energy Cost		\$ 15,815
Service Charge		72
Total Cost		15,887
2. Purchased Water:		
		None
3. Pump Tax-Replenishment Tax:		
		None
4. Payroll and Payroll Taxes:		
Employee Labor		\$ 23,400
Office Salary		5,100
Management Salary		19,500
Total		48,000
Payroll Taxes		4,025
5. Ad Valorem Taxes:		
El Dorado County:		
Assessed Value		152,431
Tax Rate		1.036%
Special Taxes		240
Subtotal		1,819
Placer County:		
Assessed Value		30,174
Tax Rate		1.0483%
Special Taxes		0
Subtotal		316
Total		2,135
6. Water Testing (in Contract Work)		
		\$ 390

APPENDIX D
Page 2

Service Connections:

Metered		
5/8 x 3/4-inch		0
3/4-inch		3
1-inch		11
1 1/2-inch		0
2-inch		0
3-inch		0
4-inch		1
		15
Flat Rate	Seasonal	93
	Annual	738
		831
Total		846

Metered Water Sales Used To Design Rates:

Block 1	0 - 3 Ccf	516 Ccf
Block 2	> 3 Ccf	22,832
Total		23,348

ADOPTED TAX CALCULATIONS
1988 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 154,769	\$ 154,769
2.	Expenses	102,883	102,883
3.	Taxes Other Than Income	6,160	6,160
4.	Depreciation Expense	8,939	8,939
5.	Interest	0	0
6.	State Tax (@ 9.3%)		3,421
7.	Taxable Income for State Tax	36,787	
8.	State Tax	3,421	
9.	Taxable Income for FIT		33,366
10.	Federal Income Tax (@ 15%)		5,005
11.	Total Income Tax		8,426