

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3409
September 14, 1988

R E S O L U T I O N

(RES. W-3409) PIERPOINT SPRINGS RESORT WATER COMPANY
(PSRWC). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$5,130 OR 65.4% ADDITIONAL ANNUAL REVENUE.

PSRWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 25, 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 \$5,730 or 73.1%. After removing the effects of user fee surcharges which are not considered for ratemaking, PSRWC's request shows 1988 gross revenue of \$7,840 at present rates increasing to \$13,570 at proposed rates to produce a rate of return on rate base of 12.00%. PSRWC serves 76 flat rate customers in the Pierpoint Springs Resort Subdivision approximately 33 miles east of the City of Porterville, Tulare County.

The present rates became effective June 3, 1980 pursuant to Resolution No. W-2647 dated June 3, 1980 which authorized a general rate increase.

The Branch made an independent analysis of PSRWC's summary of earnings. Appendix A shows PSRWC'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, materials, contract work, depreciation expense, payroll taxes and income taxes.

The Branch's estimate of purchased power expense is \$1,480 whereas PSRWC's estimate is \$1,424. The difference is due to the Branch's application of Southern California Edison Company's most recent electric rates effective June 1, 1988.

The Branch's estimate of materials expense is lower than PSRWC's. PSRWC replaced a section of water main in 1986 and charged it to expense rather than plant. Its 1988 estimate for materials was based on averaging that amount over two years, \$450 per year. The Branch corrected 1986's plant additions to classify the amount as plant and included \$100 in materials and supplies expensed for minor repair work in the test year.

PSRWC's estimate for contract work is \$1,890; the Branch's is \$261. PSRWC had inappropriately charged management salaries to the contract work during the past three years. The Branch removed those amounts and used a three year inflation-adjusted average of the remaining recorded data as its estimate. The escalation factors used for this account and others were those provided by the Advisory Branch of Commission Advisory and Compliance Division.

PSRWC used a composite depreciation rate of 2.73% to arrive at a \$1,250 estimate for depreciation expense. The Branch did a straight line remaining life depreciation study following the Commission's Standard Practice U-4, "Determination of Straight Line Remaining Life Depreciation Accruals," to arrive at its rate of 2.14% and expense of \$974. PSRWC's use of an excessive rate for a recently added storage tank was the primary difference between the depreciation rates. The Branch used a slightly lower figure for depreciable plant because of its capitalization of the \$915 in main additions for 1986 noted under materials expense above, and the Branch's recognition of \$1,316 in retirements the same year.

The Branch recommends that PSRWC be directed to use a composite depreciation rate of 2.14% until a future straight line remaining life depreciation study reviewed by the Branch indicates a revision is warranted.

PSRWC did not include payroll taxes in its estimate. The Branch used the standard payroll tax rates to arrive at its \$309 payroll tax figure.

Differences in income taxes between PSRWC and the Branch are due to differences in expense estimates. The Branch's income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rate for 1988.

The difference in rate base between PSRWC and the Branch is due to differences in average plant and average depreciation reserve.

PSRWC's estimate of utility plant is \$45,828 compared to the Branch's estimate of \$45,430. The difference is due to the Branch's recognition of \$915 of materials expenses as additions and \$1,316 in retirements in 1986 as explained earlier.

PSRWC's estimate of depreciation reserve is \$28,565; the Branch's estimate is \$18,960. PSRWC constructed a storage tank in 1985 at a cost of \$8,387 and inadvertently added that amount to both its plant and depreciation reserve balances, an error which it carried forward each year into the test year. The small remaining difference between PSRWC and the Branch in this account is due to the Branch's lower depreciation expense, differences in 1986's additions and retirements, and PSRWC's use of the beginning-of-year balance for its test year average.

To prevent future inconsistencies between the figures adopted by the Commission and PSRWC's annual reports, the Branch recommends that PSRWC be directed to record on its books of account the plant in service and depreciation reserve beginning 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 \$45,427 for plant in service, and \$18,471 for depreciation reserve as of December 31, 1987.

PSRWC estimated its request at proposed rates would produce a rate of return on rate base of 12%. The Branch recommends a rate of return of 10.50%, the midpoint of the 10.25% to 10.75% standard rate of the return range recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small 100% equity financed Water Utilities.

PSRWC 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.

A notice of the proposed rate increase and public meeting was mailed to each customer on May 19, 1988. No letters of protest were received.

On June 2, 1988 an informal public meeting attended by five customers was held in Camp Nelson. A Branch engineer conducted the meeting and one of PSRWC's owners was there to answer questions. One customer maintained that since there had not been a fire, the additional storage tank added in 1985 to increase fire flow was unnecessary. Another suggested that meters be installed to lessen the need for future increases. PSRWC's owner reminded them that Pierpoint Springs, being a resort area, has high peaking demands during the summer season and that the additional tank has alleviated the periodic outages that had occurred sporadically before it was constructed. He also observed that, although meters would make billings usage-sensitive, the total amount to be collected would remain the same or increase due to the cost of the meters. The general consensus of customers at the meeting was that water service has been excellent.

Branch engineers conducted a field inspection of PSRWC's service area and plant facilities on March 31 and April 1, 1988. They checked visible portions of the system and methods of operation, measured water pressures, audited the utility's books and talked to customers. Their inspection showed that the water system has been reasonably maintained and that water service is generally satisfactory. Southern California Edison Company's pump test results of PSRWC's five horsepower well pump found its efficiency to be 27.4%. The Branch advised PSRWC that this is very low and that the pump should probably be replaced as soon as funds permit.

The investigation also revealed that PSRWC's well does not have a method of recording water production as required by G.O. 103, "Rules Governing Water Service Including Minimum Standards of Design and Construction." In order to monitor the well pump and to alert PSRWC's management if the pump shows a further decline of efficiency which may affect water service, the Branch recommends that PSRWC be directed to install a production meter at the well. In addition, the Branch recommends that PSRWC be directed to construct a fence around its well as required by good practice. PSRWC should be allowed to file an advice letter to begin recovering the reasonable costs of the production meter and the fence after they have been completed.

According to the Tulare County Department of Health Services, PSRWC's water meets all state quality standards. PSRWC has no outstanding Commission orders requiring system improvements.

PSRWC's single well provides an adequate supply for its needs during most of the year, but it has had problems at times during the summer season. With the installation of an additional tank in 1985 to comply with local fire flow requirements, it now has sufficient storage capacity to meet its peaking needs. It has already advised customers of the need to conserve, primarily by word of mouth and by installing a large, reversible sign at the entrance to the community to let residents know when storage is running low.

Although PSRWC has experienced some loss of production with this year's drought, it still expects to be able to meet its customers' demands with voluntary conservation. Should the drought continue into 1989, however, PSRWC might have to enforce mandatory conservation measures. To be ready for this contingency, the Branch recommends that PSRWC be required to draw up a conservation and rationing plan to be included in its tariffs. The plan should allow PSRWC to declare a shortage and limit usage in the event supplies are insufficient to meet demand. The Branch is prepared to assist PSRWC in drawing up and filing a plan.

PSRWC's rates consist of an annual residential flat rate schedule, an annual metered service schedule, and a public fire hydrant schedule that dates back to 1961. PSRWC 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. PSRWC has no metered customers and no plans to install meters in the immediate future. However, the Branch proposes to increase the metered service schedule by the system average increase authorized by this resolution and to include a service charge which would recover revenue in proportion to 50% of PSRWC's fixed expenses, and a single metered quantity rate. This is consistent with the Commission's rate design policy for water companies established in 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 service 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 \$5,130 or 65.4%. 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 annual bill for a typical flat rate residential customer would increase from \$98.00 to \$162.00 or 65.3%. 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. PSRWC should use a 2.14% composite depreciation rate until a future straight line remaining life depreciation study reviewed by the Branch indicates that a revision is warranted.
5. PSRWC be directed to record on its books of account the plant in service and depreciation reserve beginning 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 \$45,427 for plant in service and \$18,471 for depreciation reserve as of December 31, 1987.
6. PSRWC should be ordered to comply with G.O. 103 by installing a suitable measuring device to determine production at its well, and should construct a fence around its well. PSRWC should be allowed to file an advice letter to begin recovering the reasonable costs of the meter and the fence when they have been completed.
7. PSRWC should submit a water conservation and rationing plan to the Water Utilities Branch for review. Upon the Branch's review and concurrence, PSRWC should file an advice letter to include the plan in its tariffs.
8. Tariff Schedule No. 5, Public Fire Hydrant Service, should be canceled.
9. 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 Pierpoint Springs Resort 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 Schedule Nos. 1A, 2RA, 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. Pierpoint Springs Resort Water Company shall use a 2.14% composite depreciation rate until a future straight line remaining life depreciation study reviewed by the Water Utilities Branch indicates that a revision is warranted.

3. Pierpoint Springs Resort Water Company shall 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 shall reflect these balances in its 1988 annual report to the Commission.

4. Pierpoint Springs Resort Water Company shall install a suitable measuring device to determine water production at its well, and shall construct a fence around its well, within one year of the effective date of this resolution. Pierpoint Springs Resort Water Company is authorized to file an advice letter to begin recovering the reasonable costs of these facilities after they have been completed.

5. Pierpoint Springs Resort Water Company shall submit within 120 days of the effective date of this resolution a water conservation and rationing plan to be reviewed by the Water Utilities Branch. Upon the Branch's review and concurrence, PSRWC shall file an advice letter to include the plan in its tariffs. The plan shall allow it to declare a shortage and limit usage in the event supplies are insufficient to meet demand.

6. 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 R. OHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

APPENDIX A

PIERPOINT SPRINGS RESORT WATER COMPANY

SUMMARY OF EARNINGS
Test Year 1988

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Flat	\$ 7,840	\$13,570	\$ 7,840	\$13,570	\$12,970
Metered	0	0	0	0	0
Total Oper. Rev.	7,840	13,570	7,840	13,570	12,970
Operating Expenses					
Purchased Power	1,424	1,424	1,480	1,480	1,480
Materials	450	450	100	100	100
Contract Work	1,890	1,890	261	261	261
Transportation	0	0	0	0	0
Other Plant Maint.	0	0	0	0	0
Office Salaries	0	0	0	0	0
Management Salaries	3,000	3,000	3,000	3,000	3,000
Pensions & Benefits	0	0	0	0	0
Uncollectibles	0	0	0	0	0
Office Services & Rent	125	125	125	125	125
Office Supplies & Exp.	40	40	40	40	40
Professional Services	50	50	50	50	50
Insurance	2,876	2,876	2,876	2,876	2,876
Reg. Conn. Exp.	0	0	0	0	0
General Expenses	3	3	3	3	3
Subtotal	9,858	9,858	7,935	7,935	7,935
Depreciation Expense	1,250	1,250	974	974	974
Property Taxes	147	147	147	147	147
Payroll Taxes	0	0	309	309	309
Income Taxes	0	244	0	963	826
Total Deductions	11,255	11,499	9,365	10,328	10,191
Net Revenue	(3,415)	2,071	(1,525)	3,242	2,779
Rate Base					
Avg. Plant	45,828	45,828	45,430	45,430	45,430
Avg. Depr. Res.	28,565	28,565	18,960	18,960	18,960
Net Plant	17,263	17,263	26,470	26,470	26,470
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	17,263	17,263	26,470	26,470	26,470
Rate of Return	(Loss)	12.00%	(Loss)	12.25%	10.50%

APPENDIX B
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PIERPOINT SPRINGS RESORT WATER COMPANY

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area including the subdivision known as Pierpoint Springs Subdivision, Tract No. 322, and vicinity, located approximately 16 miles east of the community of Springville, Tulare County.

RATES

Quantity Rate:		(T)
Per 100 cu.ft.....	\$ 1.10	(I)
Annual Service Charge:	<u>Per Meter</u>	
	<u>Per Year</u>	
For 5/8 x 3/4-inch meter.....	\$ 66.00	(R)
For 3/4-inch meter.....	73.00	
For 1-inch meter.....	99.00	
For 1-1/2-inch meter.....	132.00	
For 2-inch meter.....	178.00	(R)

The annual service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month. (T)

(Continued)

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Schedule No. 1A

ANNUAL METERED SERVICE (Continued)

SPECIAL CONDITIONS

1. The annual 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 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 for water used in excess of the monthly allowance under the annual service charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

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 any year, the portion of such annual 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. 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.

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PIERPOINT SPRINGS RESORT WATER COMPANY

Schedule 2A (T)

ANNUAL FLAT RATE SERVICE (T)

APPLICABILITY

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

TERRITORY

The unincorporated area including the subdivision known as Pierpoint Springs Subdivision, Tract No. 322, and vicinity, located approximately 16 miles east of the community of Springville, Tulare County.

RATES

Per Service Connection
Per Year

- | | | |
|--|----------|------------|
| 1. For a single family residential unit, including premises | \$162.00 | (T)
(I) |
| a. For each additional single-family residential unit on the same premises and served from the same service connection | 99.60 | (T)
(I) |
| 2. Caltrans Maintenance Station | 162.00 | (N) |
| 3. Store Building with Motel | 810.00 | (N) |

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.

2. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under schedule No. 1A, Annual Metered Service, effective as of the first 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 meter service charge for the same period shall be made on or before that day.

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Schedule No. 2A

(T)

ANNUAL FLAT RATE SERVICE (Continued)

(T)

SPECIAL CONDITIONS (Continued)

3. The annual flat rate 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 prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid.

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4. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual 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. 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.

APPENDIX C

PIERPOINT SPRINGS RESORT WATER COMPANY

COMPARISON OF RATES

METERED RATE SERVICE

The utility currently has no metered customers.

FLAT RATE SERVICE

	<u>Per Service Connection Per Year</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase</u>
1. For a single family residential unit, including premises.....	\$98.00	\$162.00	65.3%
a. For each additional single-family residential unit on the same premises and served from the same service connection	60.00	99.60	66.0%
2. Caltrans Maintenance Station [1]	98.00	162.00	65.3%
3. Store Building with Motel [2]	490.00	810.00	65.3%

[1] Caltrans Maintenance Station is currently charged as a single residential unit.

[2] Store building with motel is currently charged five times the single family residential flat rate.

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PIERPOINT SPRINGS RESORT WATER COMPANY

ADOPTED QUANTITIES
Test Year 1988

Federal Tax Rate	15%
State Tax Rate	9.3%
Business License	0
Uncollectibles	0

Expenses

1. Purchased Power	
Southern California Edison Co.	
Rate Schedule	PA-1
Effective Date of Schedule	6/1/88
Kwh	15,605
\$/Kwh	0.08281
Customer Charge	\$ 120
Service Charge	60
Total Cost	\$ 1,480
2. Payroll and Payroll Taxes	
Payroll	\$ 3,000
Payroll Taxes	309
Total	\$ 3,309
3. Ad Valorem Taxes	\$ 147
Tax Rate	1.0009%
Assessed Value	\$ 14,669
4. Water Testing (in Contract Work)	\$ 123

Service Connections

Metered Rate Service None

Flat Rate Service

1. Single family residential units, including premises	74
a. Additional single-family residential units on the same premises and served from the same service connection	0
2. Caltrans Maintenance Station	1
3. Store Building with Motel	<u>1</u>
Total	76

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PIERPOINT SPRINGS RESORT WATER COMPANY

ADOPTED TAX CALCULATIONS
Test Year 1988

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$12,970	\$12,970
2.	Operating Expenses	7,935	7,935
3.	Taxes Other Than Income	456	456
4.	Depreciation	974	974
5.	Interest	0	0
6.	State Tax		335
7.	Taxable Income for State Tax	3,605	
8.	State Tax (@ 9.3%)	335	
9.	Taxable Income for FIT		3,270
10.	Federal Income Tax (@ 15%)		491
11.	Total Income Tax		826