

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3411
October 14, 1988

R E S O L U T I O N

(RES. W-3411) CURTIS WATER COMPANY (CWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$10,161 OR 49.2% ADDITIONAL ANNUAL REVENUE.

CWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on March 14, 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 \$13,470 or 65.3%. CWC estimates that 1988 gross revenue of \$20,640 at present rates would increase to \$34,110 at proposed rates to produce a rate of return of 8.93% on rate base. CWC serves 144 customers located approximately one-half mile east of the City of Hanford, Kings County, in an area known as El Rancho Park.

The present rates became effective April 8, 1985 pursuant to Resolution No. W-3238 dated April 3, 1985 which authorized a general rate increase.

The Branch made an independent analysis of CWC's summary of earnings. Appendix A shows CWC'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, contract work, other plant maintenance, office salaries, regulatory commission expense, and income taxes.

The Branch's \$4,920 estimate of purchased power expense is higher than CWC's \$4,626. The difference is due to the Branch's application of Southern California Edison Company's most recent power rates effective July 25, 1988. CWC assumed a 5% power cost increase in 1988 over 1987.

CWC's estimate for contract work is \$4,360. The Branch reduced the contract work account to \$2,860 to spread \$3,000 in anticipated main repairs over two years instead of including the entire amount in the test year as CWC did. CWC indicated this work will take two years to complete. The Branch's estimate is very close to CWC's average recorded contract work expenses for the past three years.

CWC's estimate of \$2,100 for other plant maintenance includes an allocation of the owner's time spent performing certain plant maintenance duties. Since the owner is already compensated for this work under management salaries, the Branch deleted the duplicate amount of \$1,560 to arrive at its \$540 estimate.

CWC operates out of the office of an affiliated real estate firm, sharing its facilities and office labor. The Branch's \$3,280 estimate of office salaries is based on records of the average number of hours worked by the office person performing water utility duties and the hourly wage paid. CWC's estimate of \$3,600 was based on a rounded lump sum of \$300 per month.

The Branch's \$650 estimate for accounting and legal work reflects CWC's recorded contract amount for accounting services only. The balance of CWC's \$1,070 estimate or \$420 represents a portion of its estimated \$720 cost for this rate case. The Branch spread CWC's \$720 rate case cost estimate over the three year rate case cycle and reclassified it as regulatory commission expense.

CWC used an arbitrary amount of \$200 for its income taxes at proposed rates. The Branch's income tax figures reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state tax rate for 1988.

The differences between CWC and the Branch in rate base are due to differences in depreciation reserve and working cash.

The Branch's estimate of \$31,298 for depreciation reserve is \$1,205 greater than CWC's \$30,093 figure. CWC failed to include in the reserve its depreciation expense for test year 1988, and also made a calculation error in determining the 1987 end of year balance.

CWC's working cash estimate was determined by using its average bank checking account balance of \$1,845 for the year. The Branch used the Commission's Standard Practice U-16, "Determination of Working Cash Allowance," to arrive at its \$790 working cash figure.

CWC estimated its request at proposed rates would produce a rate of return on rate base of 8.93%. The Branch recommends a 10.50% rate of return, 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.

The Branch staff has discussed with CWC the differences between the company's figures and the Branch's. CWC has informed the Branch that it accepts the Branch's estimates.

A notice of CWC's proposed rate increase and public meeting was mailed to all customers on April 8, 1988. Two letters protesting the magnitude of the increase were received. The Branch wrote to the two customers who protested, explaining the results of the Branch's investigation and why it is recommending an increase.

On April 27, 1988 an informal public meeting attended by eight customers was held in Hanford. A Branch engineer conducted the meeting and CWC's owner and operations manager were there to answer questions. Customers expressed concern over low pressures and sand in the water. CWC promised it would begin a program of flushing its mains to remove accumulated sand. The Branch engineers indicated they would check system water pressures during their field investigation the following day.

Branch engineers conducted a field inspection of CWC's service area and plant facilities on March 31 and April 28, 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, that water service is generally satisfactory and that the water pressures at the time of the inspection met the requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction."

During the field inspection, it was noted that CWC's two wells do not have meters to record water production as required by G.O. 103. In order to accurately measure water production for comparison with power consumption so as to determine pump efficiency, and to allow CWC to monitor customers' water usage and system losses, the Branch recommends that CWC be directed to install a production meter at each well. CWC should be allowed to file an advice letter to begin recovering the reasonable costs of the installations after they have been put into operation.

According to the Kings County Health Department, CWC's water meets all state quality standards. There are no outstanding Commission orders requiring system improvements.

CWC has two wells in good condition that easily meet the needs of its customers. CWC reports that the water levels in its wells have remained approximately constant over the past two years. Although CWC has no present plans to meter its customers, the Branch is recommending that the Commission authorize CWC to establish a metered schedule and give it authority to meter customers at its option. No other conservation measures are needed at this time.

CWC has only one rates tariff, Schedule No. 2, General Flat Rate Service. The Branch proposes to increase residential rates under this flat rate schedule by slightly less than the overall increase. The field investigation also revealed that CWC's commercial customers are being served by two inch service connections whereas a special condition in the schedule limits its application to service connections not larger than one inch. Because these customers have the potential to use much more water than residential customers and CWC cannot presently monitor their consumption, the Branch recommends a metered rate schedule be established to enable CWC to install meters on all large services. In the interim, the Branch recommends that commercial customers receive a somewhat higher increase than residential customers (about 70% versus 46%).

The Branch's proposed metered rate schedule includes a service charge which would recover revenue in proportion to 50% of CWC's fixed expenses, 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 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 Branch recommends that the Commission authorize an increase in gross revenue of \$10,161 or 49.2%. 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 typical flat rate residential customer would increase from \$10.35 to \$15.10 or 45.9%. 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. CWC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining water production at its two active wells. CWC should be allowed to file an advice letter to begin recovering the reasonable costs of the meters when they have been placed in service.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Curtis 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 No. 2. Its filing shall comply with General Order 96-A. The effective date of the new and revised rate schedules shall be the date of filing.
2. Curtis Water Company shall comply with General Order No. 103 by installing a suitable measuring device or otherwise determining water production at each of its active wells within one year of the effective date of this resolution. Curtis Water Company is authorized to file an advice letter to begin recovering their reasonable costs after they have been put into operation.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on October 14, 1988. The following commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

CURTIS WATER COMPANY

SUMMARY OF EARNINGS
Test Year 1988

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat	\$20,640	\$34,110	\$20,640	\$34,110	\$30,801
Metered	0	0	0	0	0
Total Oper. Rev.	20,640	34,110	20,640	34,110	30,801
<u>Operating Expenses</u>					
Purchased Power	4,626	4,626	4,920	4,920	4,920
Contract Work	4,360	4,360	2,860	2,860	2,860
Other Plant Maint.	2,100	2,100	540	540	540
Management Salaries	7,200	7,200	7,200	7,200	7,200
Vehicle Expense	600	600	600	600	600
Office Salaries	3,600	3,600	3,280	3,280	3,280
Insurance	4,600	4,600	4,600	4,600	4,600
Accounting and Legal	1,070	1,070	650	650	650
Office Services & Pent	2,600	2,600	2,600	2,600	2,600
Office Supplies & Exp.	420	420	420	420	420
General Expenses	400	400	400	400	400
Materials	0	0	0	0	0
Reg. Conn. Exp.	0	0	240	240	240
Subtotal	31,576	31,576	28,310	28,310	28,310
Depreciation Expense	1,023	1,023	1,023	1,023	1,023
Property Taxes	426	426	426	426	426
Payroll Taxes	0	0	0	0	0
Income Taxes	0	200	0	997	239
Total Deductions	33,025	33,225	29,759	30,756	29,998
Net Revenue	(12,385)	885	(9,119)	3,354	803
<u>Rate Base</u>					
Avg. Plant	36,905	36,905	36,905	36,905	36,905
Avg. Depr. Res.	30,093	30,093	31,298	31,298	31,298
Net Plant	6,812	6,812	5,607	5,607	5,607
Less: Advances	0	0	0	0	0
Contrib.	0	0	0	0	0
Plus: Work. Cash	1,845	1,845	790	790	790
Mat'l. & Supp.	1,250	1,250	1,250	1,250	1,250
Rate Base	9,907	9,907	7,647	7,647	7,647
Rate of Return	(Loss)	8.93%	(Loss)	43.86%	10.50%

APPENDIX B
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CURTIS WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as El Rancho Park Subdivision and vicinity, located about one-half mile from the eastern limits of the city of Hanford, Kings County.

RATES

Per Meter
Per Month

Quantity Rate:

All water, per 100 cu.ft..... \$ 0.75

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 7.00
For 3/4-inch meter.....	7.70
For 1-inch meter.....	10.50
For 1 1/2-inch meter.....	14.70
For 2-inch meter.....	18.90
For 4-inch meter.....	47.60

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.

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CURTIS WATER COMPANY

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area known as El Rancho Park Subdivision and vicinity, located about one-half mile from the eastern limits of the city of Hanford, Kings County.

RATES

	<u>Per Service Connection Per Month</u>	
1. For a single-family residential unit including premises not exceeding 10,000 sq.ft. in area	\$15.10	(I)
a. For each 100 sq.ft. of premises in excess of 10,000 sq.ft.	0.13	
2. For each hotel, apartment or motel including first unit, office and utility rooms	29.75	
a. For each additional unit	3.05	
3. For each store, market, shop or office	14.90	
4. For each restaurant	59.50	
5. For each service station	29.75	(I)

(Continued)

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CURTIS WATER COMPANY

Schedule No. 2

GENERAL FLAT RATE SERVICE (Continued)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one-inch in diameter.
2. All service not provided for above shall be furnished on a metered basis only.
3. 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
 CURTIS WATER COMPANY
COMPARISON OF RATES

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Percent Increase</u>
1. For a single-family residential unit including premises not exceeding 10,000 sq.ft. in area.....	\$ 10.35	\$ 15.10	45.9%
a. For each 100 sq.ft. of premises in excess of 10,000 sq.ft.....	0.09	0.13	44.4%
2. For each hotel, apartment or motel including first unit, office and utility rooms.....	17.50	29.75	70.0%
a. For each additional unit.	1.80	3.05	69.4%
3. For each store, market, shop or office.....	8.75	14.90	70.3%
4. For each restaurant.....	35.00	59.50	70.0%
5. For each service station.....	17.50	29.75	70.0%

METERED RATE SERVICE

The utility presently has no metered rate tariff.

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CURTIS WATER COMPANY

ADOPTED QUANTITIES
Test Year 1988

Federal Tax Rate: 15%
State Tax Rate: 9.3%

Expenses:

1. Purchased Power

Southern California Edison Company

Rate Schedule	PA-1
Effective Date of Schedule	7/25/88
KWh	49,660
Cost per KWh	\$ 0.08261
Customer Charge, 2 meters	\$ 250
Service Charge, 45 HP total	\$ 567
Total Cost	\$ 4,920

2. Purchased Water None

3. Payroll:

Office Salaries	\$ 3,280
Management Salaries	\$ 7,200

4. Ad Valorem Taxes \$ 426
Tax Rate 1.04%
Assessed value \$ 40,964

5. Water Testing \$ 960

Service Connections

Flat Rate Service:

Single Family (with zero additional sq.ft.)	139
Hotel (with 98 additional rooms combined)	2
Store	1
Restaurant	1
Service Station	1
Apartment	0
Miscellaneous	0
Total	144

Metered Rate Service: None

APPENDIX D
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ADOPTED INCOME TAX CALCULATIONS

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$30,801	\$30,801
2.	Operating Expenses	28,310	28,310
3.	Taxes Other Than Income	426	426
4.	Depreciation	1,023	1,023
5.	Interest	0	0
6.	State Tax		97
7.	Taxable Income for State Tax	1,042	
8.	State Tax (@ 9.3%)	97	
9.	Taxable Income for FIT		945
10.	Federal Income Tax (@ 15%)		142
11.	Total Income Tax		239