

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities BranchRESOLUTION NO. W-3414  
November 9, 1988R E S O L U T I O N

(RES. W-3414) LAKE ALPINE WATER COMPANY (LAWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$29,505 OR 38.7% ADDITIONAL ANNUAL REVENUE.

LAWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 26, 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 \$31,660 or 40.0%. LAWC estimates that 1988 gross revenue of \$79,149 at present rates would increase to \$110,809 at proposed rates and would produce a rate of return of 8.66% on rate base. LAWC serves 413 customers in the Bear Valley area three miles west of Lake Alpine in Alpine County.

LAWC's last general rate increase was authorized by Resolution W-3222 dated January 3, 1985. The present rates have been in effect since November 5, 1986 pursuant to Resolution W-3344 dated November 5, 1986 which authorized an offset for increased liability insurance expense.

The Branch made an independent analysis of LAWC's summary of earnings. Appendix A shows LAWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates. Appendix A shows differences in revenues, expenses and rate base.

The Branch's estimates of total revenues are lower than LAWC's at present rates, but higher at LAWC's proposed rates. During its field investigation, the Branch found LAWC's handling of commercial customer billings not to be in accordance with its filed tariff schedules. Only one customer, a commercial coin laundry, is served through a meter. Because its flat rate tariff is restricted to residential customers, LAWC has been charging its eleven other commercial customers the minimum charge component from its metered service schedule, but not the quantity charge. In addition, its records did not accurately indicate commercial connection sizes or, in some cases, the number of customers served from each connection. At the Branch's request, LAWC surveyed all of its commercial connections and provided that information to the Branch. The Branch then recalculated both flat and metered rate revenues as they should have been and LAWC agreed with the new figures. As noted below, LAWC is now in the process of installing meters on its largest commercial connections and will install meters for all of its non-residential customers in the near future.

The differences in estimated operating expenses are in purchased power, employee labor, office salaries, professional services, transportation expense, office services and rentals, regulatory commission expense, depreciation and payroll taxes.

The Branch's estimate for purchased power is lower than IAWC's. IAWC increased its recorded 1987 energy charges by a flat 15%, whereas the Branch based its estimate on recorded 1987 energy use priced at the latest Pacific Gas and Electric Company rates.

The Branch's estimate for employee labor is \$2,160 compared to IAWC's \$3,000. The Branch derived its estimate from IAWC's recorded data showing the average number of hours worked by a standby person and the hourly wage paid.

The Branch's estimate of office salaries is lower than IAWC's. All office work is done by one of the owners, but no time records are kept. For its test year 1988 estimate, IAWC increased its 1987 recorded office salaries expense by about 14%. Lacking records, the Branch derived a figure by estimating the number of hours needed per month to perform water utility related office work and applied the same hourly rate as IAWC had estimated for management salaries.

The Branch's \$750 estimate for professional services reflects IAWC's current contract with a CPA firm for accounting services (\$650) and the amount IAWC estimated for legal services (\$100). IAWC arbitrarily estimated \$700 for accounting and misassigned \$250 in engineering costs in connection with plant improvements to expense rather than to plant.

IAWC estimated a lump sum transportation expense of \$3,000 for a pickup truck, but provided no support. To determine its \$1,575 estimate, the Branch obtained the actual miles used in utility related work and applied an average cost of \$0.21 per mile, the rate currently allowed by the Internal Revenue Service for business mileage.

IAWC estimated office services and rentals as an unsupported lump sum of \$2,175. The Branch's estimate of \$1,080 is based on allocating the annual rental cost of the company owners' home on the basis of the ratio of the area used for utility purposes to the total area.

IAWC did not submit a figure for regulatory commission expense. The \$275 annual estimate by the Branch is based on the number of hours put in by IAWC personnel in preparing the rate increase request, and the average office and management salary rate. The resulting amount was spread over the three year rate case cycle.

The Branch's estimate for depreciation expense is \$12,140 compared to IAWC's estimate of \$20,557. The difference is due primarily to the fact that IAWC used rates based on the shorter plant service lives set forth for federal tax purposes by the Internal Revenue Service rather than the 2.72% composite rate determined in its last general rate proceeding.

The Branch recommends that IAWC be directed to use a composite depreciation rate of 2.72% until a future straight line remaining life depreciation study reviewed by the Branch indicates that a revision is warranted.

Branch's \$2,400 estimate for payroll taxes is lower than IAWC's \$3,001 because of the Branch's lower estimates for employee labor and office salaries and because IAWC made an error in its calculation.

The Branch estimated income taxes using current federal tax rates under the Tax Reform Act of 1986 and the corresponding state tax rate for 1988.

The difference between IAWC and the Branch in rate base is due to differences in average plant, average depreciation reserve, and materials and supplies.

In average plant, IAWC overlooked and misclassified engineering costs for plant additions that were made during the test year (\$1,100) and did not include the costs of metering commercial customers as described below (\$3,000). IAWC also mistakenly deducted the value of a retired vehicle which originally was not in the plant accounts. The result is that the Branch's estimate of average plant is \$687,806, or \$2,500 higher than IAWC's estimate.

The Branch's \$185,075 estimate for average depreciation reserve is lower than IAWC's \$199,046. As noted earlier, IAWC used rates based on the shorter plant service lives set forth for federal tax purposes by the Internal Revenue Service rather than the 2.72% composite rate derived in its last general rate proceeding in 1984. The Branch went back and corrected the depreciation reserve entries for each subsequent year.

To prevent future inconsistencies between the figures adopted by the Commission and IAWC's annual reports, the Branch recommends that IAWC be directed to record on its books of account the depreciation reserve beginning balance upon which the average amount adopted in this resolution is based. That balance is \$179,004 as of December 31, 1987.

IAWC did not include an estimate of materials and supplies. The Branch made a physical inventory of IAWC's supplies on hand and found them to have cost approximately \$450.

IAWC estimated its request at proposed rates would produce a rate of return on rate base of 8.66%. The Branch recommends a 10.50% rate of return, the midpoint of 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 100% equity financed water utilities.

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

A notice of IAWC's proposed rate increase and public meeting was mailed to all customers on June 25, 1988. Two letters were subsequently received protesting the magnitude of the increase. When its investigation was completed, the Branch wrote replies explaining its findings and rate recommendations.

On July 7, 1988 an informal public meeting was held in Bear Valley. A Branch engineer conducted the meeting and IAWC's owner and operations manager were there to answer questions. Four utility customers attended the meeting, including a representative from the local homeowners' association. None objected to the rate increase after hearing the utility's explanation of why it is needed.

Branch engineers conducted a field inspection of IAWC's service area and plant facilities on June 16, 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 satisfactory and that water pressures meet the requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." It was noted, however, that water from one source, a mountain spring supplying water to Tank No. 1, was not being measured as required by G.O. 103. Water production metering is needed to help detect leaks, and to alert utility operators to declines in pump efficiency. The Branch recommends that IAWC be required to comply with G.O. 103 by installing a suitable device to measure water production at the spring source. IAWC should be allowed to file an advice letter to begin recovering the reasonable costs of the production meter after it has been put into service.

During the field investigation, the Branch found that all commercial customers were being billed the metered minimum service charge, but none, except one commercial coin laundry, were being assessed quantity charges because they had no meters. IAWC's Schedule No. 2AR, Annual Residential Flat Rate Service, limits flat rate service to residential customers. To correct this problem, the Branch recommended that IAWC install water meters on all commercial connections. IAWC agreed and is presently in the process of installing meters and changing customers' billings. The cost of meters to be installed in the test year has been included in the Branch's estimate of average plant.

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

Lake Reba, which is fed primarily by underwater springs, and several mountainside springs supply all the water needs of IAWC's customers. IAWC reports that water supplies from the springs and lake have remained relatively constant over the past two years despite California's current

drought. Although IAWC has no present plans to meter residential customers, the Branch recommends that tariff Schedule No. 2AR be amended to give it the authority to do so. As noted earlier, IAWC is installing meters on the service connections of its commercial customers. No other conservation measures are needed at this time.

IAWC's tariff rates consist of an annual metered service schedule, an annual residential flat rate service schedule, and a private fire protection service schedule. The Branch proposes to increase all schedules by approximately the system overall average increase.

The Branch's proposed metered rate schedule includes a service charge which would recover revenue in proportion to 50% of IAWC'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 permits 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 \$29,505 or 38.7%. 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 annual flat rate residential customer would increase from \$13.47 to \$18.67 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 recommendations are reasonable and should be adopted.
4. IAWC should use a 2.72% composite depreciation rate until a future straight line remaining life depreciation study reviewed by the Branch indicates that a revision is warranted.
5. IAWC should be directed to record on its books of account the depreciation reserve beginning balance upon which the average depreciation reserve adopted in this resolution is based, and to reflect that balance in its 1988 annual report to the Commission. That balance is \$179,004 for depreciation reserve as of December 31, 1987.

6. IAWC should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at its spring serving Tank No. 1. IAWC should be allowed to file an advice letter to begin recovering the reasonable costs of the measuring device when it has been placed in service.

7. IAWC should be authorized to meter residential customers as a conservation measure.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Lake Alpine 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 Schedules No. 1A and 2AR. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.

2. Lake Alpine Water Company shall use a 2.72% 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. Lake Alpine Water Company shall record on its books of account the depreciation reserve balance upon which the average amount adopted in this resolution is based, and shall reflect that balance in its 1988 annual report to the Commission.

4. Lake Alpine Water Company shall install a suitable measuring device to determine water production at its spring supplying Tank No. 1 within one year of the effective date of this resolution. Lake Alpine Water Company is authorized to file an advice letter to begin recovering the reasonable cost of the device after it has been placed in service.

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 9, 1988. The following commissioners approved it:

STANLEY W. HULETT  
President

DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners



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VICTOR R. WEISSER  
Executive Director

APPENDIX A  
LAKE ALPINE 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>					
Metered	\$ 9,319	\$ 13,046	\$ 8,247	\$ 16,430	\$ 11,373
Flat	69,280	96,993	67,505	94,507	93,664
Private Fire	550	770	550	770	770
Total Revenue	79,149	110,809	76,302	111,707	105,807
<u>Operating Expenses</u>					
Purchased Power	7,405	7,405	6,610	6,610	6,610
Employee Labor	3,000	3,000	2,160	2,160	2,160
Office Salaries	7,680	7,680	4,980	4,980	4,980
Management Salaries	21,600	21,600	21,600	21,600	21,600
Contract Work	1,500	1,500	1,500	1,500	1,500
Materials	2,200	2,200	2,200	2,200	2,200
Office Supp. & Expense	1,200	1,200	1,200	1,200	1,200
Insurance	6,548	6,548	6,548	6,548	6,548
Professional Services	1,050	1,050	750	750	750
General Expense	200	200	200	200	200
Transportation Expense	3,000	3,000	1,575	1,575	1,575
Office Services & Rent	2,175	2,175	1,080	1,080	1,080
Other Volume Related	3,200	3,200	3,200	3,200	3,200
Employee Pension & Ben.	1,400	1,400	1,400	1,400	1,400
Regulatory Conn. Exp.	0	0	275	275	275
Subtotal Expenses	62,158	62,158	55,278	55,278	55,278
Depreciation	20,557	20,557	12,140	12,140	12,140
Property Taxes	4,570	4,570	4,570	4,570	4,570
Payroll Taxes	3,001	3,001	2,400	2,400	2,400
Income Taxes	720	2,000	542	8,547	7,196
Total Deductions	91,006	92,286	74,930	82,935	81,584
Net Revenue	(11,857)	18,523	1,372	28,772	24,223
<u>Rate Base</u>					
Average Plant	685,306	685,306	687,806	687,806	687,806
Average Depr. Reserve	199,046	199,046	185,075	185,075	185,075
Net Plant	486,260	486,260	502,731	502,731	502,731
Less: Advances	0	0	0	0	0
Contributions	272,486	272,486	272,486	272,486	272,486
Plus: Working Cash	0	0	0	0	0
Matl's & Supp.	0	0	450	450	450
Rate Base	213,774	213,774	230,695	230,695	230,695
Rate of Return	(Loss)	8.66%	0.59%	12.47%	10.50%

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LAKE ALPINE WATER COMPANY

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Bear Valley tracts, and vicinity located about three miles west of Lake Alpine adjacent to State Highway 4, Alpine County.

RATES

Quantity Rate: (D)

All water, per 100 cu.ft. ....	\$	0.85	(I)
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Service Charge: (C)

		<u>Per Meter Per Year</u>	
For 5/8 x 3/4-inch meter .....	\$	114.00	
For 3/4-inch meter .....		125.00	
For 1-inch meter .....		171.00	
For 1-1/2-inch meter .....		240.00	
For 2-inch meter .....		308.00	
For 3-inch meter .....		542.00	
For 4-inch meter .....		776.00	

The Annual Service Charge is applicable to all service. It is a readiness to serve charge to which is added the charge for water used during the billing period computed at the Quantity Rate. (C)

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. (C)

(continued)



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ANNUAL METERED SERVICE

(continued)

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. (C)

LAKE ALPINE WATER COMPANY

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

Bear Valley tracts, and vicinity located about three miles west of Lake Alpine adjacent to State Highway 4, Alpine County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>	
For a single-family residential unit, including premises .....	\$ 224.00	(I)
For each additional single-family residential unit on the same premises and served from the same service connection .....	96.00	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 3/4-inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
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. 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 service charge for the same period shall be made on or before that day. (C)

(continued)

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ANNUAL RESIDENTIAL FLAT RATE SERVICE  
(continued)

4. 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.

5. 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.

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LAKE ALPINE WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Bear Valley Tract and vicinity, located about three miles west of Lake Alpine adjacent to State Highway 4, Alpine County.

RATE

For each inch of diameter of service connection Per Month  
.....\$ 3.77 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. (I)  
Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.
5. The utility undertakes to supply only such pressure as may be available at any time through the normal operations of its system.

(END OF APPENDIX B)

APPENDIX C

LAKE ALPINE WATER COMPANY

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 Year</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single-family residential unit including premises .....	\$ 161.60	\$ 224.00	38.6%
For each additional single-family residential unit on the same premises and served from the same service connection .....	69.60	96.00	37.9%

Monthly Private Fire Protection Service

For each inch of diameter of service connection .....	2.70	3.77	39.6%
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Metered Rate Service

A comparison of monthly customer bills at present and Branch's recommended rates for a 3/4-inch meter is shown below:

<u>Usage Ccf</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$22.25	\$10.42	\$ (11.83)	(53.2)%
5	22.25	14.67	( 7.58)	(34.1)
10	22.25	18.92	( 3.33)	(15.0)
20	26.30	27.42	1.12	4.3
30	33.85	35.92	2.10	6.2
40	39.65	44.42	4.77	12.0
50	45.45	52.92	7.47	16.4
100	74.45	95.42	20.97	28.2

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LAKE ALPINE WATER COMPANY

ADOPTED QUANTITIES  
Test Year 1988

Federal Tax Rate:	15%
State Tax Rate:	9.3%
Business License:	0
Uncollectible Rate:	0

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.	
Rate Schedule	A-1
Effective Date of Schedule	5/17/88
Kwh Used Total	69,590
Kwh Used-Summer	25,065
Kwh Used-Winter	44,525
\$/Kwh - Summer	0.10424
\$/Kwh - Winter	0.08570
Summer Charge	\$ 2,614
Winter Charge	3,816
Service Charge	180
Total Purchased Power	6,610

2. Payroll & Employee Benefits

Employee Labor	2,160
Management Salary	21,600
Office Salary	4,980
Total Payroll	28,740
Pensions and Benefits	1,400
Payroll Taxes	2,400

3. Ad Valorem Taxes

	4,570
Tax Rate	1.08%
Assessed Value	\$ 423,148

4. Water Testing (in Contract Work)

1,500

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Service Connections:

Metered		
5/8 x 3/4-inch .....		0
3/4-inch .....		7
1-inch .....		1
1 1/2-inch .....		1
2-inch .....		2
3-inch .....		0
4-inch .....		1
		12
Flat Rate Residential		401
Additional residential units	40	
Total		413
Public Fire Hydrant Service		40
Private Fire Protection Service (17 diam. inches)		5

Metered Water Sales Used To Design Rates:                      10,230 Ccf

ADOPTED TAX CALCULATIONS  
1988 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 105,807	\$ 105,807
2.	Expenses	55,278	55,278
3.	Taxes Other Than Income	6,970	6,970
4.	Depreciation Expense	12,140	12,140
5.	Interest	0	0
6.	State Tax (@ 9.3%)		2,921
7.	Taxable Income for State Tax	31,419	
8.	State Tax	2,921	
9.	Taxable Income for FIT		28,498
10.	Federal Income Tax (@ 15%)		4,275
11.	Total Income Tax		7,196

(END OF APPENDIX D)