

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3428
December 19, 1988

R E S O L U T I O N

(RES. W-3428) FULTON WATER COMPANY, (FWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$18,703
OR 16.0% ADDITIONAL ANNUAL REVENUE.

FWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on May 31, 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 \$23,435 or 19.9%. FWC estimates that 1988 gross revenue of \$117,677 at present rates would increase to \$141,112 at proposed rates and would produce a rate of return on rate base of 5.02%. FWC serves 767 flat rate customers on the north shore of Lake Tahoe, approximately one mile southwest of the community of Carnelian Bay, Placer County.

The present flat rates became effective January 1, 1984 pursuant to Resolution W-3147 dated November 16, 1983 which authorized a general rate increase.

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

The Branch's estimates of revenue are slightly lower than FWC's because the Branch used more recent recorded figures for the number of customers that were not available to FWC when it prepared its estimate.

The differences in estimates for operating expenses are in purchased power, transportation, office services and rent, office supplies, insurance, general expense, regulatory commission expense, depreciation, property tax and income tax.

The Branch's \$25,284 estimate of purchased power is higher than FWC's \$23,493. The Branch accepted FWC's estimate of electric power usage and applied Sierra Pacific Power Company's latest power rates effective May 1, 1988 which were not available to FWC when it made its estimate.

The Branch's \$2,674 estimate of transportation expense is lower than FWC's \$5,000. For the cost of operating FWC's pickup, the Branch estimated the daily mileage needed based on the size of the service area and the distance to the nearest source of supplies, and applied a rate of \$0.21 per mile, the rate allowed by the Internal Revenue Service for business use. FWC offered no support for its \$0.30 per mile figure. FWC also included the estimated cost for operating its backhoe. The Branch accepted FWC's hourly backhoe rate but reduced the number of hours per year to reflect only its usage for repair work. Much of FWC's backhoe use is on construction jobs for which the backhoe's costs should be capitalized.

FWC included in its office supplies expense estimate various items which should have been classified as office services and rents. The Branch accepted FWC's total estimate but reclassified \$1,600 based on an inspection of 1987's recorded expenses for these accounts.

The Branch's \$4,090 estimate of insurance expense is much lower than FWC's \$11,000. In addition to the water utility, FWC operates a very large plumbing company under the corporate name, and its owner also does outside accounting and consulting work. FWC's insurance policy covers both its utility and plumbing operation, so the Branch prorated the fire and general liability amounts. The Branch considered FWC's insurance on vehicles to be included in the transportation expense estimate.

FWC estimated \$1,000 for general expenses. The Branch included \$550, the recorded 1987 amount FWC incurred for various utility-related organization fees and expenses, such as dues paid to the North Tahoe Water Purveyors Association. The amounts eliminated were primarily for charitable and civic donations and gifts unrelated to providing water service.

For its estimate of regulatory commission expense, FWC inappropriately used its interest expense from various short term loans. Interest costs are not properly included in expenses; rather they are recoverable through the return on rate base.

The Branch's estimate of depreciation expense is lower than FWC's. The difference is due to the Branch's lower estimate of plant as explained below, and to FWC's use of a much higher depreciation rate of 4.09% for test year 1988. The Branch performed a straight line remaining life depreciation study as prescribed in the Commission's Standard Practice U-4, "Determination of Straight Line Remaining Life Depreciation Accruals," to arrive at its 2.76% rate.

The Branch recommends that FWC be directed to use a composite depreciation rate of 2.76% until a future straight line remaining life depreciation study reviewed by the Branch indicates that a revision is warranted.

The Branch's estimate of property taxes is slightly higher than FWC's because the Branch used FWC's previously recorded property taxes and escalated by 2% per year as allowed by state law.

The Branch's figures for income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1988. FWC did not include calculations supporting its income tax estimates.

The significant differences in rate base are in plant in service, depreciation reserve, advances, and working cash.

The Branch's estimate of average plant in service is lower than FWC's due to the Branch's not having included three of the four pickup trucks listed as plant by FWC. As noted above, FWC's owner also operates a very large plumbing business, and all of these vehicles are used by both concerns. The three older vehicles are nearly fully depreciated, so the Branch's removal of them and their associated depreciation reserve had little effect on rate base. FWC added a single new pickup truck in 1988 which the Branch did include in its plant estimate.

The Branch's estimate of depreciation reserve is considerably lower than FWC's. In prior years, FWC used depreciation rates ranging from 4.09% to 4.93%, much higher than the 3.58% derived in its last rate proceeding in 1983. The Branch corrected the depreciation reserve entries back to 1983 using the proper 3.58% rate, and for 1988 used the 2.76% rate resulting from its straight line remaining life depreciation study as described earlier. The Branch also adjusted the reserve for the removal of three vehicles as noted in the plant discussion above.

To prevent future inconsistencies between the figures adopted by the Commission and FWC's annual reports, the Branch recommends that FWC be directed to record on its books of account the depreciation reserve and plant in service beginning balances upon which the average amounts adopted in this resolution are based. Those balances are \$422,224 for plant in service and \$224,417 for depreciation reserve as of December 31, 1987.

The Branch's estimate for advances for construction is higher than FWC's because the Branch corrected an error in which FWC carried an incorrect amount forward in 1986.

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 all of FWC'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.

FWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 5.02%. The Branch recommends a rate of return of 10.50%, the midpoint of the 10.25% to 10.75% standard rate of return range recommended by the Accounting and Financial Branch of Commission Advisory and Compliance Division for small, 100% equity financed water utilities.

FWC was informed of the Branch's differing views of revenues, expenses and rate base 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 June 6, 1988. Five letters of protest have been received. Four letters were from part time residents protesting the fact that FWC does not offer seasonal rates. The Branch believes that FWC's annual rates are equitable because most of the utility's costs (76%) are fixed and do not decrease when customers are absent during the off season. Additionally, FWC's service area serves primarily residential resort property. Since those who would benefit from seasonal rates would be primarily second homes or seasonal rentals, annual rates should not cause those customers undue hardship.

The fifth protest was a petition signed by seven customers complaining of loud noises in the pipes. FWC's owner states that noises in the pipes are due to low flow in the off season, the valving necessary due to various pressure zones, and pumps occasionally starting and stopping at higher than normal operating pressures. Fulton is working on eliminating these problems by trying various modifications in the operation of the system.

The Branch recently responded by letter to those who protested, conveying the results of its investigation and explaining why it is recommending an increase.

On June 30, 1988 an informal public meeting was held near the service area in Kings Beach. Only four customers attended. A Branch representative conducted the meeting and FWC's owner was there to answer questions. One customer stated that annual rates were unfair to part-time customers. Another complained of sediment and rust in the water and noted that when the mains are flushed by opening hydrants, the problem ceases.

Branch engineers conducted a field investigation of FWC's service area on July 1, 1988. Visible portions of the system were inspected, pressures checked, and company records researched. The inspection included a visit to the customer who complained of rust and sediment in the water. The main serving the customer had been flushed earlier in the day and the customer seemed satisfied. No major water supply or water quality problems were found. Overall, the inspection revealed that service is satisfactory.

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

FWC has four intake points in Lake Tahoe and foresees no problems with water supply. Average water use per customer is moderate. No special conservation measures are needed at this time.

All of FWC's customers are flat rate, although it does have a metered rate schedule and its tariff gives it the authority to convert customers from flat rate to metered. The Branch recommends increasing flat rates overall by the system average increase, but reallocating the rates for each connection size to match the Commission's standard meter ratios. Rates on the Public Fire Hydrant Service schedule would not change. The Annual General Metered Rate schedule would be revised consistent with the Commission's rate design policy for water companies established by Decision 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. Customers using the estimated system average of 11 ccf (one Ccf is one hundred cubic feet) per month would pay the same at metered rates as at flat rates. Since there are no metered customers, neither the utility's revenues nor customers' bills are affected by the revised metered rate schedule.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$18,703 or 16.0%. 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 flat rate customer with a 3/4-inch service connection would increase from \$12.50 per month to \$14.50 per month (16.0%). A comparison of 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. FWC should use a 2.76% depreciation accrual rate until a straight line remaining life depreciation study reviewed by the Branch indicates that a revision is warranted.
5. FWC should be required 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 \$422,224 for plant in service and \$224,417 for depreciation reserve as of December 31, 1987.
6. 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 Fulton 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 and 2RA. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.
2. Fulton Water Company shall use a 2.76% depreciation accrual rate until a future straight line remaining life depreciation study reviewed by the Water Utilities Branch indicates that a revision is warranted.
3. Fulton Water Company shall 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 shall reflect those balances in its 1988 annual report to the Commission.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FRÉDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

APPENDIX A
 FULTON 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 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Flat Rate | 117,677 | 141,112 | 117,227 | 140,572 | 135,930 |
| Total Revenue | 117,677 | 141,112 | 117,227 | 140,572 | 135,930 |
| <u>Operating Expenses</u> | | | | | |
| Purchased Power | 23,493 | 23,493 | 25,284 | 25,284 | 25,284 |
| Other Volume Related | 1,361 | 1,361 | 1,361 | 1,361 | 1,361 |
| Employee Labor | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 |
| Materials | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Contract Work | 500 | 500 | 500 | 500 | 500 |
| Office Salaries | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Management Salaries | 24,000 | 24,000 | 24,000 | 24,000 | 24,000 |
| Transportation | 5,000 | 5,000 | 2,674 | 2,674 | 2,674 |
| Pensions & Benefits | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Office Serv. & Rent | 0 | 0 | 1,600 | 1,600 | 1,600 |
| Office Supplies | 4,000 | 4,000 | 2,400 | 2,400 | 2,400 |
| Professional Services | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Insurance | 11,000 | 11,000 | 4,090 | 4,090 | 4,090 |
| General Expense | 1,000 | 1,000 | 550 | 550 | 550 |
| Reg. Comm. Expense | 2,000 | 2,000 | 0 | 0 | 0 |
| Subtotal | 102,354 | 102,354 | 92,459 | 92,459 | 92,459 |
| Depreciation Exp. | 18,430 | 18,430 | 11,235 | 11,235 | 11,235 |
| Property Tax | 1,927 | 1,927 | 1,985 | 1,985 | 1,985 |
| Payroll Tax | 3,651 | 3,651 | 3,651 | 3,651 | 3,651 |
| Income Taxes | 1,000 | 4,945 | 1,808 | 7,155 | 6,093 |
| Total Deductions | 127,362 | 131,307 | 111,138 | 116,485 | 115,423 |
| Net Revenue | (9,685) | 9,805 | 6,089 | 24,087 | 20,507 |
| <u>Rate Base</u> | | | | | |
| Average Plant | 470,914 | 470,914 | 444,224 | 444,224 | 444,224 |
| Avg. Depr. Reserve | 259,500 | 259,500 | 230,536 | 230,536 | 230,536 |
| Net Plant | 211,414 | 211,414 | 213,688 | 213,688 | 213,688 |
| Less: Advances | 1,250 | 1,250 | 1,520 | 1,520 | 1,520 |
| Contributions | 18,960 | 18,960 | 18,855 | 18,855 | 18,855 |
| Plus: Working Cash | 1,500 | 1,500 | 0 | 0 | 0 |
| Mat'l & Supplies | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Rate Base | 194,704 | 194,704 | 195,313 | 195,313 | 195,313 |
| Rate of Return | (Loss) | 5.04% ^{1/} | 3.12% | 12.33% | 10.50% |

^{1/} FWC shows 5.02%

APPENDIX B
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FULTON WATER COMPANY
Schedule No. JA

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

An area located approximately one mile southwest of Camelian Bay, Lake Tahoe, Placer County.

RATES

| | | |
|---------------------------------|---------|-----|
| Quantity Rate: | | (T) |
| | | (D) |
| All water, per 100 cu. ft. | \$ 0.81 | (I) |

| | | |
|--------------------------------|----------|-----|
| Annual Service Charge: | | (D) |
| For 5/8 x 3/4-inch meter | \$ 60.00 | (D) |
| For 3/4-inch meter | 66.00 | |
| For 1-inch meter | 90.00 | |
| For 1 1/2-inch meter | 126.00 | |
| For 2-inch meter | 162.00 | (D) |
| For 3-inch meter | 288.00 | (N) |
| For 4-inch meter | 408.00 | (N) |

The service charge applies to all metered service connections. To it is added the charge for water used at the quantity rate. (T)
(T)

(Continued)

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ANNUAL GENERAL 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 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 in accordance with the utility's established billing periods for water used. (T)

2. The charge for water used may be billed monthly, bimonthly or quarterly, at the option of the utility. (T)

3. 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 year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period in which service is taken. 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)

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FULTON WATER COMPANY

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

An area located approximately one mile southwest of Camelian Bay, Lake Tahoe, Placer County.

RATES

| | <u>Per Service Connection</u> <u>Per Year</u> | |
|---|--|-----|
| For a single-family residential unit, including premises: | | |
| Served through a 3/4-inch service | \$ 174.00 | (I) |
| 1-inch service | 237.00 | |
| 1 1/2-inch service | 333.00 | (I) |
| For each additional single-family residential unit on the same premises and served by the same connection | 110.00 | (I) |

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General Metered Service, (T) 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 metered service charge for the same period shall be made (T) on or before that day.

(Continued)

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Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE (Continued)

2. 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.

(L)

(L)

3. 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 year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period in which service is taken. 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

FULTON WATER COMPANY

COMPARISON OF RATES

Flat Rate Service

| <u>Per Service Connection Per Year</u> | | |
|--|--------------------|-----------------|
| <u>Present</u> | <u>Recommended</u> | <u>Percent</u> |
| <u>Rates</u> | <u>Rates</u> | <u>Increase</u> |

For a single-family residential unit, including premises:

Served through a:

| | | | |
|--------------------------|-----------|-----------|-------|
| 3/4-inch service | \$ 150.00 | \$ 174.00 | 16.0% |
| 1-inch service | 200.00 | 237.00 | 18.5 |
| 1 1/2-inch service | 255.00 | 333.00 | 30.6 |

Each additional single-family residential unit on the same premises and served by the same connection

| | | |
|-------|--------|------|
| 95.00 | 110.00 | 15.8 |
|-------|--------|------|

Metered Rate Service

(There are currently no customers taking metered rate service.)

APPENDIX D

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FULTON WATER COMPANY

ADOPTED QUANTITIES

Test Year 1988

| | |
|-----------------------|------|
| Federal Tax Rate: | 15% |
| State Tax Rate: | 9.3% |
| Local Franchise Rate: | 0.0% |
| Uncollectible Rate: | 0.0% |

Expenses:

1. Purchased Power

| | |
|----------------------------|-----------|
| Sierra Pacific Power Co. | |
| Rate Schedule | A-1 |
| Effective Date of Schedule | 5/1/88 |
| KWh Used Total | 265,078 |
| \$/KWh | 0.08908 |
| Energy Cost | \$ 23,613 |
| Service Charge | 324 |
| Signal Cost (Phone Line) | 1,347 |
| Total Purchased Power | 25,284 |

2. Purchased Water None

3. Pump Tax - Replenishment Tax None

4. Payroll

| | |
|-----------------------|-----------|
| Employee Labor | \$ 12,000 |
| Office Salaries | 4,000 |
| Management Salaries | 24,000 |
| Total Payroll | 40,000 |
| Pensions and Benefits | 8,000 |
| Payroll Taxes | 3,651 |

5. Ad Valorem Taxes 1,985

| | |
|----------------|-----------|
| Tax Rate | 1.07% |
| Assessed Value | \$186,440 |

6. Water Testing \$ 360

