

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3430
February 8, 1989

RESOLUTION

(RES. W-3430) COBB MOUNTAIN WATER COMPANY, (CMWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$7,114 OR 313.8% ADDITIONAL ANNUAL REVENUE.

CMWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on October 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 \$7,344 or 329%. CMWC estimates that 1988 gross revenue of \$2,232 at present rates would increase to \$9,576 at proposed rates but would still produce a net loss. CMWC serves 53 metered customers in the Gordon Springs subdivision located about one mile west of Cobb, Lake County.

The present rates were established by Resolution W-1369, effective June 1, 1972, which authorized a general rate increase. Decision (D.) 88-05-060 on May 25, 1988 approved the transfer of ownership of CMWC from Arthur Anderson's estate to his son, Vincent Bruce Anderson, and made no change in rates.

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

The Branch's estimates of metered revenue are slightly higher than CMWC's because the Branch's estimate of water consumption in the test year is higher. The Branch's consumption estimate is based on an average of the past five years' recorded data while CMWC's is based on scaling up three months' recorded data in 1988. The Branch used a five year average because water consumption per customer has fluctuated over the last five years, showing no apparent trend.

The differences in the estimates of operating expenses are in purchased power, materials, contract work, transportation, office supplies, insurance, general expenses, depreciation, payroll taxes and income taxes.

CMWC's estimate for purchased power is slightly higher than the Branch's. CMWC scaled up its recorded electric bills for the first three months of 1988 based on 1987 recorded data to arrive at its \$470 estimate. The Branch

derived its \$414 estimated purchased power cost by multiplying the recorded energy usage per unit of water consumed for the twelve month period ending November, 1988 by its water consumption estimate discussed above, and applying Pacific Gas and Electric Company's latest electric rates.

CMWC's estimate of \$1405 for materials expense includes \$1325 for materials used in capital improvements which should be capitalized when the associated plant is completed. The remaining \$80 is the cost for chlorine test kits which belong in the materials and supplies component of rate base. The Branch's estimate of \$100 for materials expense is based on CMWC's anticipated costs for materials necessary for regular maintenance. CMWC inadvertently placed this \$100 in its estimate of the materials and supplies component of rate base. In short, CMWC had its estimates of materials expense and the materials and supplies component of rate base switched in its request.

The Branch's estimate for contract work is \$874 compared to CMWC's \$1716. The difference is due to CMWC's inaccurate estimate of the cost of water testing. The Branch used actual bills for water testing expenses in 1988 and an estimate provided to CMWC by its current testing laboratory. The Branch included \$672 for required turbidity and bacteriological testing, 1/3 of \$530 for general chemical tests required every three years, and \$25 for radionuclide testing. The Branch's estimate includes all testing currently required by the Lake County Health Department.

CMWC did not request an allowance for transportation expense. The Branch included \$100, the approximate average of recorded amounts over the last several years.

The Branch's estimate of office supplies and expenses is slightly less than CMWC's, primarily because CMWC included \$100 for the cost of office furniture which should have been charged to plant additions.

The Branch's \$795 estimate of insurance expense is much lower than CMWC's \$1,675. The Branch used the actual cost of CMWC's current liability insurance policy, less a rebate provided to CMWC after the filing date of this request. The Branch also included \$250 for the cost of fire insurance on the company's facilities and \$126 for vehicle liability insurance which CMWC acquired after filing its workpapers. The company based its estimate solely on the premium paid on liability insurance in 1987.

The Branch's estimate of general expenses is \$122; CMWC's is \$50. The difference is the increased cost of a Lake County Health Department permit which CMWC was unaware of at the time of filing.

The Branch's estimate of depreciation expense is slightly higher than CMWC's because the Branch used a higher estimate for plant additions in 1987 and 1988 as explained below.

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average plant in service and depreciation reserve
CMWC's because the Branch included the cost of labor
plant additions, which CMWC failed to include both

To prevent future discrepancies between the figures adopted by the
Commission and CMWC's annual reports, the Branch recommends that CMWC 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 \$25,865 for plant in service and
\$16,561 for depreciation reserve as of December 31, 1987.

CMWC estimated \$1,378 for working cash allowance based on its present monthly
metered service tariff. As discussed below, the Branch and CMWC agree that
CMWC's rates should be changed to include an annual service charge payable in
advance. The purpose of a working cash allowance is to pay a return to
utility owners for funds invested to meet expenses before receipt of the
corresponding revenues. Because CMWC will receive most of its revenues in
advance, it will not need a working cash allowance.

The Branch's \$80 estimate for materials and supplies is the cost for chlorine
test kits which CMWC had inadvertently placed in materials expense as
explained earlier in the materials discussion. CMWC's estimate of \$100 is,
as also explained earlier, its estimate of anticipated costs for materials
necessary for regular maintenance and utility operation which should have
been in the materials expense category of operating expenses.

CMWC's draft advice letter requested rates which it estimated would continue
to produce a loss. 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 small water utilities.

CMWC 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 October 24, 1988. The notice was amended to account for an
unavoidable change in the meeting place and re-mailed on November 2, 1988.
No letters protesting the increase were received. Representatives from the

CORRECTION

**THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED**

TO ASSURE

LEGIBILITY

CMWC inadvertently neglected to include an estimate of payroll taxes. The Branch computed payroll taxes at the standard rates.

The Branch's income tax estimates are based on current tax rates under the federal Tax Reform Act of 1986 and the corresponding state tax rate. CMWC inadvertently neglected to estimate income taxes.

The difference in rate base is due to differences in plant in service, depreciation reserve, working cash, and materials and supplies.

The Branch's estimates for average plant in service and depreciation reserve are slightly higher than CMWC's because the Branch included the cost of labor expended in constructing plant additions, which CMWC failed to include both for 1987 and 1988.

To prevent future inconsistencies between the figures adopted by the Commission and CMWC's annual reports, the Branch recommends that CMWC 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 \$25,865 for plant in service and \$16,561 for depreciation reserve as of December 31, 1987.

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Branch and CMWC were available for the meeting at the Cobb Mountain Elementary School near CMWC's service area on November 16, 1988. No customers attended. The Commission's Consumer Affairs Branch has no record of complaints of any kind against CMWC for the last several years.

A field investigation of the CMWC water system was conducted by a Branch engineer on November 16 and 17, 1988. Visible portions of the system were inspected, pressures checked and company records researched. The investigation indicated that service is satisfactory and that CMWC's system is in compliance with the requirements of the Commission's G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction."

According to the Lake County Health Department, CMWC's water quality is in compliance with local requirements. There are no outstanding Commission orders requiring system improvements.

The spring that serves as CMWC's source of supply has flowed undiminished for the past several years, including the last two drought years. With an abundant supply for its small number of customers, low average usage, and all customers metered, no further conservation measures are needed.

CMWC's general metered service schedule has a minimum charge which includes 5 Ccf per month (one Ccf is one hundred cubic feet), and three declining rate quantity blocks. The Branch proposes a metered rate design with a service charge and a single quantity rate for all water used. This is consistent with the Commission's rate design policy for water companies established by D.86-05-064 which calls for phasing out lifeline rates and allows the reduction of multiple blocks to a single block. D.86-05-064 also calls for service charges which recover up to 50% of fixed costs. The Branch recommends, however, that the service charge be set at a level which will recover 90% of the fixed costs because most of CMWC's customers are seasonal residents and much higher service charges are needed to lend revenue stability and to ensure that CMWC is able to meet its fixed cost obligations. At \$0.81 per Ccf, the resulting quantity charge is still high enough to discourage excessive water use.

CMWC also requested a \$45.00 reconnection fee, calculated as six months times its proposed service charge, to discourage seasonal disconnections. Many small water utilities under Commission jurisdiction achieve the same end by having annual rather than monthly rates. The Branch suggested to CMWC that it adopt the Commission's standard Annual General Metered Service schedule rather than impose a reconnection fee, and CMWC concurred.

In February, 1982 the Commission adopted a policy of capping small water company rate increases at 100% per year. The revenues deferred by capping are made up, with interest, through rates approved for the subsequent year. Rates are lowered to their final level in the third year when all deferred

revenues and interest have been recovered. A rate increase greater than 100% in the first year is permitted when necessary to eliminate a negative rate of return or out-of-pocket losses.

The Branch's proposal deviates from this policy by recommending the full increase be granted now rather than 252.2% now, the remainder (17.5% plus interest) in twelve months, and then dropping rates to their final level in 24 months (the immediate 252.2% increase would be necessary to eliminate CMWC's net revenue loss.) In this case there were no customer protests; the current rates were established sixteen years ago and are exceptionally low; and the proposed rates are not so high as to be burdensome. The Branch believes that imposing two rate increases and then a decrease would result in more complication for this small company and its customers than was intended by the Commission's policy.

The Branch recommends that the Commission authorize an increase in gross revenue of \$7,114 or 313.8%. This increase will provide a 10.50% estimated rate of return on rate base in test year 1988.

At the Branch's recommended rates shown in Appendix B, the equivalent monthly bill for a typical residential customer with a 5/8 x 3/4-inch meter using the system average 7.3 Ccf per month would increase from \$4.15 to \$17.91. 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. CMWC 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 \$25,865 for plant in service and \$16,561 for depreciation reserve as of December 31, 1987.
5. 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 Cobb Mountain Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective Rate Schedule No. 1. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be the date of filing.
2. Cobb Mountain 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.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 8, 1989. The following commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

APPENDIX A

COBB MOUNTAIN WATER COMPANY

SUMMARY OF EARNINGS
Test Year 1988

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	\$ 2,232	\$ 9,576	\$ 2,267	\$ 10,189	\$ 9,381
Flat Rate	0	0	0	0	0
Total Revenue	2,232	9,576	2,267	10,189	9,381
Operating Expenses					
Purchased Power	470	470	414	414	414
Employee Labor	1,800	1,800	1,800	1,800	1,800
Materials	1,405	1,405	100	100	100
Contract Work	1,716	1,716	874	874	874
Office Salaries	1,440	1,440	1,440	1,440	1,440
Management Salaries	360	360	360	360	360
Uncollectibles	20	20	20	20	20
Transportation	0	0	100	100	100
Office Serv. & Rent	100	100	100	100	100
Office Supplies	493	493	427	427	427
Professional Services	25	25	25	25	25
Insurance	1,675	1,675	795	795	795
General Expense	50	50	122	122	122
Reg. Comm. Expense	150	150	150	150	150
Subtotal	9,704	9,704	6,727	6,727	6,727
Depreciation Exp.	689	689	758	758	758
Property Tax	50	50	50	50	50
Payroll Tax	0	0	450	450	450
Income Taxes	0	0	0	505	320
Total Deductions	10,443	10,443	7,985	8,490	8,305
Net Revenue	(8,211)	(867)	(5,718)	1,699	1,076
Rate Base					
Average Plant	26,050	26,050	27,107	27,107	27,107
Avg. Depr. Reserve	16,900	16,900	16,940	16,940	16,940
Net Plant	9,150	9,150	10,167	10,167	10,167
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	1,378	1,378	0	0	0
Mat'l & Supplies	100	100	80	80	80
Rate Base	10,628	10,628	10,247	10,247	10,247
Rate of Return	(Loss)	(Loss)	(Loss)	16.58%	10.50%

APPENDIX B
Page 1

COBB MOUNTAIN WATER COMPANY

Schedule No. 1

ANNUAL GENERAL METERED SERVICE (N)

APPLICABILITY

Applicable to all service.

TERRITORY

The West half of Section 3, Township 11 North, Range 8 West, M.D.B. and M., and vicinity, near Cobb, Lake County.

RATES

Quantity Rate: (C)

All water, per 100 cu.ft. \$ 0.81 (I)

Annual Service Charge: Per Meter Per Year (C)

For 5/8 x 3/4-inch meter	\$ 144.00	(I)
For 3/4-inch meter	158.40	
For 1-inch meter	216.00	
For 1 1/2-inch meter	288.00	(I)

(D)

The annual service charge is applicable to all metered service. It is a readiness-to-serve charge which is added to the charge, computed at the quantity rate, for water used. (N)
|
|
(N)

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 at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods for water used. (N)
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(N)

(Continued)

APPENDIX B
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COBB MOUNTAIN WATER COMPANY

Schedule No. 1

ANNUAL GENERAL 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 size. 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 charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charge shall be due the customer.

(N)
|
(N)

APPENDIX C

COEB MOUNTAIN WATER COMPANY

COMPARISON OF RATES

A comparison of monthly bills for residential customers with 5/8 x 3/4-inch meters at present and the Branch's recommended rates:

Monthly Usage, 100 cu ft.	Present Bills	Recommended Bills	Amount Increase	Percent Increase
0	\$ 3.00	\$ 12.00	\$ 9.00	300%
3	3.00	14.43	11.43	381
5	3.00	16.05	13.05	435
7.3 (avg)	4.15	17.91	13.76	332
10	5.50	20.10	14.60	265
15	8.00	24.15	16.15	202
20	10.00	28.20	18.20	182
30	14.00	36.30	22.30	159
50	22.00	52.50	30.50	139

APPENDIX D

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COBB MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES

Test Year 1988

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

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.	
Rate Schedule	A-1P
Effective Date of Schedule	5/17/88
Kwh Used Total	3,477
Kwh Used-Summer	2,200
Kwh Used-Winter	1,277
\$/kwh - Summer	0.10424
\$/kwh - Winter	0.08570
Summer Charge	\$ 229
Winter Charge	109
Service Charge	75
Total Purchased Power	414

2. Purchased Water None

3. Pump Tax - Replenishment Tax None

4. Payroll

Employee Labor	\$ 1,800
Office Salary	1,440
Management Salary	360
Total	3,600
Payroll taxes	450

5. Property Tax (estimated - not yet assessed) 50

6. Water Testing 874

APPENDIX D
Page 2

COBB MOUNTAIN WATER COMPANY

Service Connections:

5/8 x 3/4-inch meters 53

Metered Water Sales Used To Design Rates: 2,168 Ccf

ADOPTED TAX CALCULATIONS
Test Year 1988

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 9,381	\$ 9,381
2.	Expenses	6,727	6,727
3.	Taxes Other Than Income	500	500
4.	Depreciation Expense	758	758
5.	Interest	0	0
6.	Taxable Income for State Tax	1,396	
7.	State Tax (@ 9.3%)	130	130
8.	Taxable Income for FIT		1,266
9.	Federal Income Tax (@ 15%)		190
10.	Total Income Tax		320