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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3433
March 8, 1989

R E S O L U T I O N

(RES. W-3433) SONORA WATER COMPANY, (SWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$9,241
OR 14.1% ADDITIONAL ANNUAL REVENUE.

SWC, 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 \$26,207 or 40.9%. SWC estimates that 1989 gross revenue of \$64,033 at present rates would increase to \$90,240 at proposed rates and would produce a rate of return on rate base of 10.3%. SWC serves about 98 metered customers in the Fairway Acres subdivision and vicinity located about one mile east of Jamestown along State Highway 108 in Tuolumne County.

The present rates became effective on February 23, 1982 pursuant to Resolution W-2936 which authorized an offset rate increase to meet higher costs for purchased water. SWC was also granted a purchased water offset by Resolution W-2808 on March 17, 1981. SWC's last general rate increase was authorized by Resolution W-2525 dated June 5, 1979.

The Branch made an independent analysis of SWC's summary of earnings. Appendix A presents SWC'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 differences between the Branch's and SWC's estimates of revenues at present and proposed rates are due to differences in estimates of the number of customers, total water consumption, and SWC's including in its estimate of revenue at present rates public fire hydrant service revenue which it had been improperly collecting from customers.

SWC based its metered revenue estimates on 80 customers at present rates and 98 customers at proposed rates while the Branch used 98 customers at both present and proposed rates. The Branch used SWC's recorded water sales to estimate average consumption per customer for each meter size and thus total consumption. SWC was unable to explain how it determined its metered water sales revenue estimate. SWC has also been improperly charging its residential customers for public fire hydrants as explained in the rate design section below. The Branch's estimates exclude those revenues.

The differences in the estimates of operating expenses are in purchased water, materials, contract work, management salary, employee labor, office salary, office supplies, insurance, general expenses, uncollectibles, regulatory commission expense, depreciation, property taxes, payroll taxes and income taxes.

SWC purchases all of its water from Tuolumne Water System, an agency of Tuolumne County. It does no pumping and no water treatment, and relies on contractors for most or all of its system maintenance.

SWC based its \$49,500 figure for purchased water on its unexplained sales estimate noted above, and Tuolumne Water System's projected future rate increases. The Branch's \$48,193 figure was based on its estimate of sales in the test year, a 2.5% water loss factor (determined by SWC's 2.5% average losses over the past several years), and Tuolumne's rates as of January 1, 1989. Any future increases in its supplier's wholesale rates should be reflected in SWC's balancing account and its rates adjusted by the Commission's standard offset procedures.

SWC's estimate for materials expense of \$431 includes costs for new meters which should properly be capitalized as plant additions. The Branch estimated no materials expense because SWC performs no maintenance or operating activity requiring materials or supplies.

The Branch's estimate for contract work is slightly higher than SWC's. The Branch added current water testing expenses to an average of the last five years' recorded contract work expenses escalated for inflation and customer growth. The escalation factors used for this account and others were those recommended by the Advisory Branch of Commission Advisory and Compliance Division. SWC offered no explanation of the \$900 figure in its summary of earnings and made no entry for this expense in its workpapers.

SWC's \$24,000 estimate of management salary includes all of the duties which would normally be charged to the management salary, employee labor, and office salary accounts. The Branch's \$10,500 total payroll estimate (broken down to \$4,000 for management salary, \$1,500 for employee labor and \$5,000 for office salary) was based on the payroll recorded in SWC's 1987 annual report escalated to the 1989 test year. After evaluating the owner's time spent performing the duties in each payroll category, the Branch found the recorded figure consistent with SWC's status as a small water utility requiring at most minimal operating labor, little day to day maintenance, and having no pumping or water treatment facilities.

SWC's estimate for office supplies is \$1,324 compared to the Branch's \$1,642. The Branch's estimate was calculated from the average of five years' recorded figures adjusted for inflation and customer growth. SWC offered two estimates, \$1,500 in its workpapers and \$1,324 in its summary of earnings, with no explanation of the difference.

SWC originally estimated insurance expenses based on quotes, whereas the Branch used the \$2,518 actual cost of the general business policy now in effect. This premium was paid after the filing of SWC's rate increase request. The Branch also added the cost of SWC's current auto liability insurance policy, \$594, to arrive at its estimate of \$3,112.

The Branch's \$134 estimate of general expenses is significantly lower than SWC's. The Branch used an average of recorded general expenses for the last several years adjusted for inflation and customer growth. SWC included \$53 in uncollectibles in this category and offered two estimates, \$433 in its summary of earnings and \$250 in its workpapers, with no explanation of either.

The Branch estimated \$53 for uncollectibles based on SWC's recorded data. SWC included the same amount for uncollectibles in its general expenses estimate.

SWC mistakenly used the 1 1/2% PUC user fee surcharge for its estimate of regulatory commission expense. It did not, however, show the corresponding revenues in its estimate. The Branch used the standard rate making procedure of excluding user fees entirely from its summary of earnings. The Branch's regulatory commission expense estimate is \$450 spread over the three year rate case cycle (\$150 per year) to recognize time SWC spent preparing its rate case.

The Branch's estimate for depreciation expense is \$1,072 compared to SWC's \$1,366. The difference is due to SWC's having included depreciation on contributed plant, and to differences in estimates of plant in service as explained below.

The Branch's \$482 estimate of property taxes is less than SWC's \$660. SWC improperly included the \$300 minimum 1988 state income tax in this category, and used 1987 property tax rates. The Branch used SWC's estimated assessed value and the current property tax rate.

SWC made no estimate of payroll taxes. The Branch calculated the payroll taxes due on its \$10,500 payroll estimate at standard rates.

The Branch's figures for income taxes reflect current tax rates under the federal Tax Reform Act of 1986 and the corresponding state tax rates for 1989. SWC included the 1988 minimum state income tax in its estimate of property taxes, and inadvertently neglected to estimate federal income tax.

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

Differences in the Branch's and SWC's estimates for average plant in service and average depreciation reserve are due to SWC's inclusion of items no longer in use such as a pipe threader, a compressor and related equipment, and a chemical feeder. SWC has not included these items in its past annual reports, but included them in its workpapers for this rate case because it anticipates using them when and if it decides to develop a well and make

other plant additions in the future. The Branch brought the figures recorded in SWC's 1987 annual report forward to the 1989 test year. The Branch also included the costs of additional meters SWC expects to put in service in 1989.

The Branch's estimate for average net contributions is \$5,199 compared to SWC's \$4,669. SWC's annual reports showed that it had not been depreciating contributions as required by the Uniform System of Accounts, but it did do a calculation for this rate proceeding of what depreciated contributions would have been. The Branch used a 2.5% depreciation rate to bring contributed plant forward from its original value in 1971, with an addition in 1987, to the test year.

To avoid future inconsistencies between the figure adopted by the Commission and SWC's annual reports, the Branch recommends that SWC be required to record on its books of account the accumulated depreciation on contributions balance upon which the average amount adopted in this resolution is based, and to reflect the resulting net contributions in its 1988 annual report to the Commission. Those amounts are \$3,456 for accumulated depreciation on contributions and \$5,536 for net contributions as of December 31, 1987.

The Branch's estimate for materials and supplies held in inventory is \$1,227 compared to SWC's \$1,908. The difference is due to the Branch's shifting the cost of meters SWC has on hand to meet its expected growth from this category to plant in service.

SWC estimated that its request at proposed rates would produce a rate of return on rate base of 10.3%. 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.

SWC 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 November 1, 1988. No letters concerning the increase were received.

On November 22, 1988 a public meeting was held at the Jamestown Community Hall near SWC's service area. The Branch's representative explained Commission rate setting procedures and SWC's representative explained the need for the rate increase. Two customers attended to state that as fixed income retirees they were concerned that the utility has a mechanism to recover increasing costs while no such option is available to retirees. Neither complained about water quality or service.

Branch engineers conducted field investigations on September 14 and 15, 1988, and September 23, 1988. Visible portions of the system were checked, company records researched, and customers interviewed. Water pressures were found to be adequate in all parts of the system. SWC appears to be providing satisfactory service in accordance with G.O. 103, "Rules Governing Water Service Including Minimum Standards of Design and Construction."

Two complaints have been received by the Commission's Consumer Affairs Branch in the last three years. Each was minor and was handled immediately. There are no outstanding Commission orders requiring system improvements. According to the California Department of Health Services, SWC's water meets all applicable state health standards.

SWC currently has no conservation program. Its sole supplier, Tuolumne Water System, notified SWC last summer that supply may be restricted in the future due to drought conditions, although no such restrictions were enforced in 1988. The Branch believes that since restrictions are possible, SWC should be required to draw up a water conservation and rationing plan to be included in its tariffs. The plan should allow SWC to declare a shortage and limit usage in the event that its supply is insufficient to meet demand. Upon the Branch's review and concurrence, SWC should file an advice letter to include the plan in its tariffs. The Branch is prepared to assist SWC in drawing up and filing such a plan.

SWC's rates consist of schedules for annual metered service, private fire protection service, and public fire hydrant service. The present annual metered service schedule has a 300 cubic foot lifeline block and annual service charges. The Branch proposes a metered rate design with service charges which would recover revenue equivalent to 50% of SWC's fixed expenses, 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, allows the reduction of multiple blocks to a single block and permits recovery of up to 50% of fixed expenses through the service charge. In designing service charges for each meter size the Branch deviated from the standard ratios contained in the Commission's Standard Practice U-25, "Guide for Adjusting and Estimating Operating Revenues of Water Utilities," in order to avoid having some customers receive increases substantially greater than the overall system average. Under the Branch's proposed rate design only one commercial customer faces an increase substantially higher than the system average, but this customer has by choice a larger size meter than is necessary and could reduce his rates by having his meter replaced with a smaller size.

SWC has in its tariffs Schedule No. 5, Public Fire Hydrant Service, which nominally allows it to charge public agencies for fire hydrants. In 1979 the Legislature enacted Public Utilities Code Section 2713 prohibiting water utilities from charging fire protection agencies for hydrants absent a written agreement with the agency. By Resolution L-213 (December 18, 1979) the Commission authorized water utilities to file an advice letter establishing customer surcharges to recover the revenues lost under Section 2713. The revenues so collected were to be held subject to refund and their reasonableness examined in each utility's subsequent general rate proceeding. SWC did not make the advice letter filing authorized by Resolution L-213. However, since 1967 it has been assessing without Commission authorization a similar surcharge based on the tariffed hydrant charge divided by the number of customers in the immediate vicinity and served by each individual hydrant, in the belief that those who benefited from having hydrants nearby should bear the costs. Sonora claims that it was unaware that it could not make such a surcharge, and that the Commission staff did not so inform it in previous rate proceedings. The total amount collected from 1967 through early 1989 was approximately \$5,000.

At the Branch's request, Sonora has now ceased billing customers for hydrants. Although the surcharge was not approved by the Commission, the Branch recommends that Sonora not be required to make refunds because: 1) in addressing the hydrant revenue issue in L-213 the Commission recognized that customers benefit from hydrants and authorized water utilities to impose a surcharge to recover the costs of hydrants beginning in 1979; 2) customer growth caused most of the overcharge revenue to be collected in the years since 1979; 3) had Sonora made the advice letter filing authorized, it would in all likelihood have been allowed to impose a customer surcharge in approximately the same annual amount (albeit spread to customers differently); 4) the charge per customer was typically very low; 5) only those customers served by hydrants nearby were charged, and the overcharges were spread over many years, thus making it impossible to identify to which customers and in what amounts refunds would be due; 6) the aggregate amount that might be refunded, while low relative to SWC's total authorized revenue, could be sufficient to cause this small water company financial stress; 7) the Branch's investigation shows that SWC had net losses in most of the years during which it was applying the surcharge, and that the additional revenues would not have created excessive earnings.

Resolution W-2936 which authorized SWC's present rates in 1982 also ordered it to maintain a balancing account to track expenses for purchased water. SWC has not maintained this balancing account, due principally to the owner's lack of familiarity with the proper methodology. As part of its investigation the Branch reconstructed the balancing account using water consumption and pricing data provided by SWC and Tuolumne Water System, SWC's water supplier. SWC filed this advice letter general rate increase request primarily to meet what it perceived as extreme increases in its costs for purchased water. In reality, although Tuolumne has raised its wholesale water rates several times in the last six years, SWC's costs rose primarily because Tuolumne repaired a defective meter that allowed SWC to pay for far less water than it was actually receiving. The Branch's analysis shows that SWC has been underbilled approximately \$50,000 for purchased water since 1983. Tuolumne has informed the Branch that it does not intend to bill SWC for the excess. The Branch believes that this underbilling masked increasing purchased water rates which would have compelled SWC to file for at least two offset rate increases since its last increase in 1982. SWC obtained the benefit of approximately 55% of this underbilling, with its customers benefiting by the remaining 45% in potential rate increases that were not passed through. The Branch recommends that SWC be ordered to establish and maintain its purchased water balancing account with an initial balance of zero as of the effective date of this resolution. The Branch will instruct SWC in proper balancing account procedures.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$9,241 or 14.1%. This increase will provide a 10.50% estimated rate of return on rate base in test year 1989.

At the Branch's recommended rates shown in Appendix B, the bill for a typical metered residential customer using an average 1,200 cubic feet of water per month would increase from \$18.85 to \$21.52 per month. A comparison of customer bills at 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 recommendations are reasonable and should be adopted.
4. SWC should be required to record on its books of account the accumulated depreciation on contributions balance upon which the average amount adopted in this resolution is based, and to reflect the resulting net contributions in its 1988 annual report to the Commission. Those amounts are \$3,456 for accumulated depreciation on contributions and \$5,536 for net contributions as of December 31, 1987.
5. SWC should be required to prepare and submit a water conservation and rationing plan to the Branch for review. The plan should allow SWC to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, SWC should file an advice letter to include the plan in its tariffs.
6. SWC should be required to discontinue the practice of billing water customers for public fire hydrants.
7. SWC should be required to establish and maintain a purchased water balancing account with a balance of zero as of the effective date of this resolution.
8. 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 Sonora 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 4. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be the date of filing.
2. Sonora Water Company shall record on its books of account the accumulated depreciation on contributions balance upon which the average amount adopted in this resolution is based, and shall reflect the resulting net contributions in its 1988 annual report to the Commission.

3. Sonora Water Company shall within 90 days of the effective date of this resolution prepare and submit a water conservation and rationing plan to the Water Utilities Branch for review. The plan shall allow Sonora Water Company to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, Sonora Water Company shall file an advice letter to include the plan in its tariffs.

4. Sonora Water Company shall discontinue the practice of billing water customers for public fire hydrants.

5. Sonora Water Company shall establish and maintain a purchased water balancing account with a balance of zero as of the effective date of this resolution.

6. This resolution is effective today.

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

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



VICTOR R. WEISSER
Executive Director

APPENDIX A

SONORA WATER COMPANY

SUMMARY OF EARNINGS
Test Year 1989

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Metered	\$ 63,018	\$ 89,640	\$ 65,420	\$ 90,540	\$ 74,613
Private Fire	324	600	324	600	372
Public Fire	778	0	0	0	0
Total Revenue	64,120 ^{1/}	90,240	65,744	91,140	74,985
<u>Operating Expenses</u>					
Purchased Power	0	0	0	0	0
Purchased Water	49,500	49,500	48,193	48,193	48,193
Materials	431	431	0	0	0
Contract Work	900	900	928	928	928
Transportation	700	700	700	700	700
Management Salaries	24,000	24,000	4,000	4,000	4,000
Employee Labor	0	0	1,500	1,500	1,500
Office Salaries	0	0	5,000	5,000	5,000
Office Supplies	1,324	1,324	1,642	1,642	1,642
Professional Services	0	0	0	0	0
Insurance	4,704	4,704	3,112	3,112	3,112
General Expense	433	433	134	134	134
Uncollectibles	0	0	53	53	53
Reg. Comm. Expense	945	945	150	150	150
Subtotal	82,937	82,937	65,412	65,412	65,412
Depreciation Exp.	1,366	1,366	1,072	1,072	1,072
Property Tax	660	660	482	482	482
Payroll Tax	0	0	1,314	1,314	1,314
Income Taxes	0	0	600	5,236	1,536
Total Deductions	84,963	84,963	68,880	73,516	69,816
Net Revenue	(20,843)	5,277	(3,136)	17,624	5,169
<u>Rate Base</u>					
Average Plant	68,511	68,511	67,265	67,265	67,265
Avg. Depr. Reserve	24,410	24,410	23,725	23,725	23,725
Net Plant	44,101	44,101	43,540	43,540	43,540
Less: Advances	0	0	0	0	0
Contributions	4,669	4,669	5,199	5,199	5,199
Plus: Working Cash	9,700	9,700	9,611	9,611	9,611
Mat'l & Supplies	1,908	1,908	1,277	1,277	1,277
Rate Base	51,040	51,040	49,229	49,229	49,229
Rate of Return	(Loss)	10.3%	(Loss)	35.80%	10.50%

^{1/} Shown as \$64,033 in utility's workpapers

APPENDIX B
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SONORA WATER COMPANY

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Fairway Acres and vicinity, approximately one mile east of Jamestown, Tuolumne County.

RATES

Quantity Rate		(T)
All water, per 100 cu.ft.	\$1.26	(C)
Annual Service Charge:	<u>Per Meter</u>	
	<u>Per Year</u>	
For 5/8x3/4-inch meter.....	\$ 76.80	(I)
For 3/4-inch meter.....	183.60	
For 1-inch meter.....	326.40	
For 1 1/2-inch meter.....	390.00	
For 2-inch meter.....	481.20	
For 3-inch meter.....	583.00	
For 4-inch meter.....	795.00	(I)

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.

SONORA WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Fairway Acres and vicinity, approximately one mile east of Jamestown, Tuolumne County.

RATE

	<u>Per Service Connection</u> <u>Per Month</u>	
For each inch of diameter of service connection	\$3.10	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. 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 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.

(Continued)

APPENDIX B

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SONORA WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE (Continued)

SPECIAL CONDITIONS (Continued)

4. Service hereunder is for private fire protection systems (L)
to which no connections for other than fire protection purposes (L)
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 with the cost paid by the applicant. Such payment
shall not be subject to refund.

5. The utility undertakes to supply only such water at such
pressure as may be available at any time through the normal
operation of its system.

APPENDIX C

SONORA WATER COMPANY

COMPARISON OF RATES

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	\$ 5.50	\$ 6.40	\$ 0.90	16.4%
3	8.05	10.18	2.13	26.5
5	10.45	12.70	2.25	21.5
10	16.45	19.00	2.55	15.5
12 (Average)	18.85	21.52	2.67	14.2
15	22.45	25.30	2.85	12.7
20	28.45	31.60	3.15	11.1
30	40.45	44.20	3.75	9.3
50	64.45	69.40	4.95	7.7
100	124.45	132.40	7.95	6.4

APPENDIX D
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SONORA WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Federal Tax Rate	15%
State Tax Rate:	9.3%
Local Franchise Rate:	0%

Expenses:

1. Purchased power	None
2. Purchased water	Tuolumne Water System
Seller	General Metered Service
Schedule	Treated Water
Monthly Rates	
Service Charge	\$ 150 per month
0 to 300 cu. ft.	0.72 per Ccf
next 9700 cu. ft.	0.90 per Ccf
over 10,000 cu. ft.	0.92 per Ccf
Quantity	50,460 Ccf
Total	\$ 48,193
3. Payroll	
Management salary	\$ 4,000
Employee Labor	1,500
Office Salary	5,000
Total	10,500
Payroll taxes	1,314
4. Water Testing (in contract work)	\$ 360
5. Insurance Expenses	
General Liability	\$ 2,518
Auto	594
6. Property Taxes	
Tax Rate	1.135%
Assessed Value	\$42,464
Total	482

APPENDIX D
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SONORA WATER COMPANY

Service Connections

5/8 x 3/4-inch	80
3/4-inch	1
1-inch	11
1 1/2-inch	1
2-inch	4
3-inch	1
4-inch	0
Total	98

Metered Water Sales Used to Design Rates 49,200 Ccf

ADOPTED TAX CALCULATIONS
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 74,985	\$ 74,985
2.	Expenses	65,412	65,412
3.	Taxes Other Than Income	1,796	1,796
4.	Depreciation Expense	1,072	1,072
5.	Interest	0	0
6.	Taxable Income for State Tax	6,705	
7.	State Tax (@ 9.3%)	624	624
8.	Taxable Income for FIT		6,081
9.	Federal Income Tax (@ 15%)		912
10.	Total Income Tax		1,536