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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3435
March 22, 1989

R E S O L U T I O N

(RES. W-3435) DONNER LAKE UTILITY COMPANY, (DLUC),
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$25,767 OR 9.92% ADDITIONAL ANNUAL REVENUE.

DLUC, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 29, 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 \$30,540 or 11.75%. After minor revenue estimate adjustments to conform its summary of earnings with its detailed workpapers, DLUC's request shows 1988 gross revenues of \$259,742 at present rates increasing to \$290,344 at proposed rates to produce a rate of return on rate base of 10.40%. DLUC serves approximately 1083 flat rate and 44 metered customers on the northern, western, and southern shores of Donner Lake in Placer and Nevada Counties.

DLUC's last general rate increase was authorized by Interim Decision (D) 85-05-073 and made permanent by D.86-12-011. The present rates became effective August 25, 1986 pursuant to the last of a series of decisions authorizing loan amortization surcharges to pay for ordered system improvements.

The Branch made an independent analysis of DLUC's summary of earnings. Appendix A presents DLUC'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 minor difference between the Branch's and DLUC's estimates of revenue at present and proposed rates is due to DLUC's inadvertently having included one too many metered customers in its loan amortization surcharge revenue calculations. The Branch and DLUC agree on the proper number of customers.

The differences in the estimates of operating expenses are in purchased power, other volume related expenses, employee labor, contract work, management salaries, pensions and benefits, transportation, other plant maintenance, office supplies, professional services, insurance, general expenses, regulatory commission expense, depreciation, property taxes, payroll taxes and income taxes.

DLUC based its \$26,000 estimate for purchased power for 1988 on its recorded bills for 1987. The Branch's \$29,638 estimate is based on DLUC's actual 1988 electric power usage which has increased because DLUC's spring source production has fallen off significantly, thus necessitating increased pumping from Donner Lake.

The Branch's \$2,435 estimate of other volume related expenses is lower than DLUC's \$3,000. The Branch based its figure on the average recorded amounts for the last four years adjusted for inflation. The Branch's escalation factors for this and other accounts were those recommended by the Advisory Branch of Commission Advisory and Compliance Division. DLUC offered no explanation for its estimate.

DLUC estimated \$25,400 for employee labor, \$14,000 for office salaries and \$49,000 for management salaries. The Branch accepted the first two amounts as consistent with recorded data and reasonable overall for a utility of DLUC's size and characteristics, but reduced management salaries to \$40,000 based on the recorded salary of the resident operations manager and the owner's recorded charges to management salaries. The Branch then reallocated its \$79,400 total payroll estimate as shown in the summary of earnings to more realistically reflect a greater proportion of time devoted to employee labor and less to management.

The Branch's \$5,722 estimate for contract work consists of the average of the last four years' recorded non-testing contract work expenses escalated for inflation, \$576 for the current costs of bacteriological testing, and \$800 for required general chemical testing. DLUC offered no explanation for its \$8,100 estimate.

The Branch's \$5,040 pensions and benefits estimate was based on the actual amounts recorded in 1988. DLUC offered no explanation for its \$4,000 figure.

The Branch's \$8,225 estimate of transportation expense was based on the escalated average of the last four years' recorded expenses. DLUC offered no justification for its \$9,000 estimate.

DLUC offered no explanation for its \$11,000 figure for other plant maintenance, while the Branch based its \$14,294 estimate on the average other plant maintenance expenses for the past four years adjusted for inflation.

Both DLUC and the Branch based their amounts of office supplies and expenses on recorded 1987 expenses per customer. Both estimates also include an additional cost for a new federal requirement of mailing EPA (Environmental Protection Agency) notices to each customer on an annual basis. The Branch's final estimate is slightly greater than DLUC's, however, because the Branch escalated the recorded data for inflation while DLUC did not. Data from 1987 were used instead of an escalated average of four years' recorded expenses to reflect the increased efficiency of computer operations in the office.

The Branch's \$2,563 figure for professional services is lower than DLUC's \$3,000 because DLUC included the cost of preparing its rate increase filing and Commission-required annual reports in this category. The Branch moved these expenses to regulatory commission expense and used an escalated average of four years' recorded expenses.

DLUC offered no explanation for its \$25,000 insurance expense estimate. The Branch's \$20,689 estimate includes the recorded cost of the general liability and auto liability policies in effect in 1988, \$17,226, and the cost of workers' compensation insurance.

The Branch's estimate of general expenses is slightly less than DLUC's. The Branch used an escalated average of recorded general expenses per customer for the last four years. DLUC offered no explanation for its figure.

The Branch estimated \$481 for regulatory commission expense based on the actual charges incurred in preparing this rate case and the cost of a depreciation study, both spread over the three year rate case cycle, and the amount recorded for preparation of the Commission-required annual report. DLUC improperly used the 1 1/2% PUC reimbursement fee surcharge for this item, but did not include the corresponding amount in revenues.

DLUC's estimate of depreciation expense is slightly lower than the Branch's due to an arithmetic error in DLUC's calculations.

The Branch based its lower estimate of property taxes, \$8,029, on recorded 1988-1989 property tax records from Placer and Nevada Counties.

The Branch calculated payroll taxes on its estimated payroll at the rates currently paid by DLUC. DLUC's estimate was based on an incorrect rate and its higher total payroll.

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 1988. DLUC's estimate includes only the \$300 minimum state corporate tax for 1988. DLUC is carrying forward operating losses from past years to effectively reduce its tax obligations to the minimum, but these loss carry-over credits are not considered for ratemaking.

The very small difference in the Branch's and DLUC's estimates for average depreciation reserve is due to the difference in depreciation expense noted earlier.

The very small difference in advances is due to DLUC's having transposed two digits in its figure.

The Branch's estimate of contributed plant is lower than DLUC's because DLUC inadvertently used the balance of contributed plant at the beginning of 1987 instead of 1988 in calculating the test year average.

DLUC estimated that its request at proposed rates would yield a rate of return on rate base of 10.4%. Although DLUC is not 100% equity financed because it has over \$300,000 in loan obligations authorized by D.84-05-099,

it stipulated in that case to a 10.50% rate of return on total rate base in order to persuade the Commission that its plan to pay for the necessary improvements with private financing rather than with Safe Drinking Water Bond Act funds was reasonable and would not place undue burdens on its ratepayers. This is coincidentally the midpoint of the 10.25% to 10.75% standard rate of return range currently recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small, 100% equity financed water utilities.

DIUC 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 was mailed to each customer on October 11, 1988. The Branch received eleven letters protesting the rate increase. Four writers complained of the high cost of water service for part time residents who must pay an annual rate. Three living at higher elevations and served by small mains complained of service problems. The others complained about the timing of the public meeting, suggesting that such a meeting should be held during the summer when more customers could attend, and objected to high rates in general. 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 October 25, 1988 a public meeting was held at the Donner Lake Village complex in DIUC's service area. The Branch's representative explained Commission rate setting procedures and DIUC's representative explained the need for the rate increase. The primary concerns expressed by the twelve customers attending were: (1) the inequity of placing an increase on part time residents who use water for only a few weeks each year; (2) occasional water quality problems, especially over holiday weekends in hot weather; (3) misunderstanding of the nature of the loan amortization surcharge shown in the public notice and the utility's tariffs; and (4) dissatisfaction at holding the public meeting at a time when so few customers could attend.

Branch engineers conducted field investigations on October 11, 12, 25 and 26, 1988. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. The investigation indicated that, while service overall is satisfactory and DIUC's system is generally in compliance with the Commission's G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction," there are some problem areas. Transmission mains serving the northwestern and western shores of Donner Lake are deteriorating and repairs can be expected to become quite frequent in the coming years. There are undersized mains which contribute to low and occasionally inadequate pressures at higher elevations, especially in the Biltz tract. Some of the mains serving the west shore are undersized and not buried deep enough to prevent freezing during harsh winter conditions, and the network serving this area may have a problem with lack of circulation.

Although none of these problems poses an immediate threat to the health or safety of customers, they indicate the need for a long range plan to upgrade facilities. At the Branch's request, DIUC has submitted a letter stating

that it will make needed improvements as its finances allow. Because DLUC's service and facilities are not at this point clearly deficient, the Branch recommends that the Commission accept DLUC's written commitment and not order an improvement program in this informal proceeding.

According to the Tahoe-Truckee Sanitation Agency and the California Department of Health Services, DLUC's water meets all applicable state health standards. There are no outstanding Commission orders requiring system improvements.

DLUC currently has no water conservation program. Although its sources generally provide an adequate supply of water, there are occasional supply problems when demand peaks over summer holiday weekends. These have been more frequent in the two recent drought years as the production at DLUC's Greenpoint Springs source has declined, requiring DLUC to take more water from Donner Lake. In the longer term, there is a possibility that access to lake water may be restricted as competing public agencies try to reapportion it in a continuing drought. Since most of its customers are not metered, DLUC would have a difficult time monitoring a rationing program if one became necessary. It would also be difficult to convince part time residents of the need to conserve when they only use water for a few weeks each year. However, in view of the possibility of restricted supplies in the future, the Branch recommends that DLUC be ordered to develop a conservation plan. Upon the Branch's review and concurrence, DLUC should file an advice letter to include the plan in its tariffs. The Branch is prepared to assist the company in developing and filing such a plan.

DLUC's rates consist of an annual general flat rate schedule, an annual general metered schedule and a fire protection service schedule. The Branch proposes to raise each schedule by the system average increase and to consolidate the loan amortization charges with the general rates. The current metered rate schedule consists of a service charge which recovers revenue in proportion to 72% of DLUC's fixed costs, and a single quantity rate for all water used. The Branch's proposed metered rate design holds the metered service charge approximately constant and applies the increase to the quantity charge, dropping fixed cost coverage to 66%. This moves in the direction indicated by the Commission's water rate design policy established by D.86-05-064 which permits recovery of up to 50% of fixed expenses through the service charge. Since most of its revenues are realized from flat rate customers, this will have little effect on DLUC's overall revenue stability. Raising the quantity charge will also tend to promote conservation, although even the new \$0.59 per one-hundred cubic feet rate is relatively low.

The Branch recommends that the Commission authorize an increase in annual gross revenue of \$25,767 (9.92%). 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 monthly bill for a residential flat rate customer would increase from \$18.33 to \$20.15, including the loan amortization surcharge. 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. DIUC should be required to prepare and submit a water conservation and rationing plan to the Branch for review. The plan should permit DIUC to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, DIUC should file an advice letter to include the plan in its tariffs.
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 Donner Lake Utility 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, 2A and 3A. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be the date of filing.
2. Donner Lake Utility 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 Donner Lake Utility Company to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, Donner Lake Utility Company shall file an advice letter to include the plan in its tariffs.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 22, 1989. The following commissioners approved it:

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

Commissioner Patricia Eckert,
present but not participating



VICTOR R. WEISSER
Executive Director

APPENDIX A

DONNER LAKE UTILITY 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	\$ 15,135	\$ 17,276	\$ 15,135	\$ 17,276	\$ 19,362
Flat Rate	201,868	230,329	201,868	230,329	266,112
Loan Amort. Surcharge	42,739	42,739	42,704	42,704	0
Total Revenue	259,742	290,344	259,707	290,309	285,474
<u>Operating Expenses</u>					
Purchased Power	26,000	26,000	29,638	29,638	29,638
Other Volume Related	3,000	3,000	2,435	2,435	2,435
Employee Labor	25,400	25,400	43,400	43,400	43,400
Materials	600	600	600	600	600
Contract Work	8,100	8,100	5,722	5,722	5,722
Office Salaries	14,000	14,000	14,000	14,000	14,000
Management Salaries	49,000	49,000	22,000	22,000	22,000
Pensions & Benefits	4,000	4,000	5,040	5,040	5,040
Transportation	9,000	9,000	8,225	8,225	8,225
Other Plant Maint.	11,000	11,000	14,294	14,294	14,294
Office Supplies	8,000	8,000	8,531	8,531	8,531
Professional Services	3,000	3,000	2,563	2,563	2,563
Insurance	25,000	25,000	20,689	20,689	20,689
General Expense	3,000	3,000	2,803	2,803	2,803
Reg. Comm. Expense	3,900	4,360	481	481	481
Subtotal	193,000	193,460	180,421	180,421	180,421
Depreciation Exp.	25,200	25,200	25,361	25,361	25,361
Property Tax	8,700	8,700	8,029	8,029	8,029
Payroll Tax	7,100	7,100	6,630	6,630	6,630
Income Taxes	300	300	2,849	9,678	8,570
Total Deductions	234,300	234,760	223,290	230,119	229,011
Net Revenue	25,442	55,584	36,417	60,190	56,463
<u>Rate Base</u>					
Average Plant	955,500	955,500	955,500	955,500	955,500
Avg. Depr. Reserve	309,290	309,290	309,314	309,314	309,314
Net Plant	646,210	646,210	646,186	646,186	646,186
Less: Advances	9,234	9,234	9,243	9,243	9,243
Contributions	111,720	111,720	108,312	108,312	108,312
Plus: Working Cash	0	0	0	0	0
Mat'l & Supplies	9,000	9,000	9,000	9,000	9,000
Rate Base	534,256	534,256	537,631	537,631	537,631
Rate of Return	4.76%	10.40%	6.77%	11.20%	10.50%

APPENDIX B
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DONNER LAKE UTILITY COMPANY

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Donner Lake and vicinity, Nevada and Placer Counties

RATES

Monthly Quantity Rate:		(D)
All water, per 100 cu. ft.	\$ 0.59	(D) (I) (T)

Annual Service Charge:	Per Meter Per Year	(D) (D) (T)
For 1-inch meter	\$207.60	(I) (D)
For 1 1/2-inch meter	291.00	
For 2-inch meter	381.60	
For 3-inch meter	681.60	(I)
For 4-inch meter	1086.60	(D)

The annual service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

(T)
|
|
(T)
(D)

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.

(D)

(Continued)

DONNER LAKE UTILITY COMPANY

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE (Continued)

2. The opening bill for metered service, except for conversion (L)
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 service is not continued for at least one year after the date
of initial service, no refund of the initial charge shall be due (L)
the customer.

DONNER LAKE UTILITY COMPANY

Schedule No. 2A

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Donner Lake and vicinity, Nevada and Placer Counties.

RATES

Per Service Connection Per Year

- | | | |
|---|----------|-----|
| 1. For single family residential unit including premises | \$241.80 | (I) |
| a. For each additional unit on same premises | 120.60 | (I) |
| 2. For each hotel, apartment, or motel, including first room or apartment | 241.80 | (I) |
| a. For each additional room or unit | 120.60 | (I) |
| | | (D) |

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one-inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General 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 pro-rated difference between such flat rate payment and the annual service charge shall be made on or before that day.

(Continued)

DONNER LAKE UTILITY COMPANY

Schedule No. 2A

ANNUAL GENERAL 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 at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. (L)

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. (L)

DONNER LAKE UTILITY COMPANY

Schedule No. 3A

FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all fire protection water service furnished on an annual basis.

TERRITORY

Donner Lake and vicinity, Nevada and Placer Counties.

RATE

The charge for fire protection service shall be \$82.25 per (I) hydrant per year for each hydrant connected to the Company's mains.

SPECIAL CONDITIONS

1. The annual charge applies to service during the 12-month period commencing January 1 and is due in advance.
2. Applicants for fire protection service shall be required to furnish the hydrants and to pay all costs in connecting same to the Company mains.
3. Service hereunder shall be subject to the Company's rules and regulations governing water service.

APPENDIX C

DONNER LAKE UTILITY COMPANY

COMPARISON OF RATES (1)

<u>Flat Rate Service</u>	<u>Per Service Connection</u>		<u>Per Year</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single family residential unit, including premises	\$219.91	\$241.80	10.0%
For each additional unit on same premises	109.97	120.60	9.7
<u>Metered Rate Service</u>			
<u>Service Charge:</u>			
For 1-inch meter	207.46	207.60	0.1
For 1-1/2-inch meter	290.61	291.00	0.1
For 2-inch meter	381.25	381.60	0.1
For 3-inch meter	681.53	681.60	0.0
For 4-inch meter	1086.60	1086.60	0.0
<u>Quantity Charge:</u>			
All water, per 100 cu. ft. ...	0.464	0.59	27.2

A monthly bill comparison for a customer with a 1-inch meter is shown below:

<u>Monthly Usage</u> 100 cu.ft.	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 17.29	\$ 17.30	\$ 0.01	0.1%
3	18.68	19.07	0.39	2.1
5	19.61	20.25	0.64	3.3
10	21.93	23.20	1.27	5.8
15	24.25	26.15	1.90	7.8
20	26.57	29.10	2.53	9.5
27 (avg.)	29.82	33.23	3.41	11.4
30	31.21	35.00	3.79	12.1
50	40.49	46.80	6.31	15.6
100	63.69	76.30	12.61	19.8

(1) Including loan amortization charge

APPENDIX D
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DONNER LAKE UTILITY COMPANY

ADOPTED QUANTITIES
Test Year 1988

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

Expenses:

1. Purchased water	None
2. Purchased power	Truckee-Donner FUD
Seller	GS-1 General Commercial
Schedule	
Monthly Rates	
0 to 100 kWh	\$ 8.73
over 100 kWh	0.0966 per kWh
Fuel Surcharge	0.0060 per kWh
Energy Commission Surcharge	0.0002 per kWh
Annual Quantity	288,450 kWh
Total	\$ 29,638
3. Payroll	
Management salary	\$ 22,000
Employee Labor	43,400
Office Salary	14,000
Total	79,400
Payroll taxes	6,630
4. Water Testing (in contract work)	\$ 1,376
5. Insurance Expenses	
General Liability (incl. auto)	\$ 17,226
Workman's Compensation	3,463
6. Ad Valorem Taxes	
Tax Rate - Nevada Co.	1.0280%
Special Assessments	\$ 32
Assessed Value	101,778
Tax Rate - Placer Co.	1.0213%
Assessed Value	\$ 50,214
Tax Rate - Nevada Co.	1.0314%
Assessed Value	\$ 624,160
Total	8,029

APPENDIX D

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DONNER LAKE UTILITY COMPANY

Service Connections

Metered Rates:	
1-inch	33
1 1/2-inch	1
2-inch	<u>10</u>
Total Metered	44

Flat Rate:	1,083
Additional services same connection	36

Metered Water Sales Used to Design Rates 14,300 Ccf

ADOPTED TAX CALCULATIONS
1988 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 285,474	\$ 285,474
2.	Expenses	180,421	180,421
3.	Taxes Other Than Income	14,659	14,659
4.	Depreciation Expense	25,361	25,361
5.	Interest	26,617	27,617
6.	Taxable Income for State Tax	37,416	
7.	State Tax (@ 9.3%)	3,480	3,480
8.	Taxable Income for FIT		33,936
9.	Federal Income Tax (@ 15%)		5,090
10.	Total Income Tax		8,570