

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3437  
April 12, 1989

R E S O L U T I O N

(RES. W-3437) IDYLWILD WATER SYSTEM, (IWS). ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$5,507 OR 50.9% ADDITIONAL ANNUAL REVENUE.

IWS, by draft advice letter accepted by the Water Utilities Branch (Branch) on November 22, 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 \$6,190 or 61.0%. IWS estimates that 1989 gross revenue of \$10,140 at present rates would increase to \$16,330 at proposed rates and allow it to meet its expenses with no net return. IWS has also requested authority to implement a facilities improvement program. IWS serves approximately 48 metered customers located about three miles south of Los Gatos along State Highway 17 in Santa Clara County.

The present rates were filed on October 13, 1987 pursuant to Decision (D) 87-07-095 which brought IWS under Commission jurisdiction with no increase in the existing rates.

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

The differences in revenues at present and proposed rates are due to the use of different water consumption estimates. IWS's estimate of water consumption was based on a rough calculation, while the Branch used 1988 recorded figures from customer billings. IWS acknowledges that 1989 consumption is likely to be very similar to that for 1988.

The differences in estimates of operating expenses are in materials, office supplies, professional services and property taxes.

IWS's owner operates two adjacent unregulated water systems and does the bookkeeping for a third. He provides all maintenance, operation, bookkeeping, management, water testing and transportation for IWS under contract, so all of those expenses have been included in IWS's contract work account. The Branch reviewed the overall amount charged for these services and believes it is reasonable.

IWS's estimate for materials and supplies is \$600, whereas the recorded cost of chlorine and miscellaneous supplies was \$434 in 1988. IWS anticipates no change in the volume of water sold from 1988 to 1989, so the the Branch estimated \$460, the 1988 recorded cost escalated to 1989. The escalation factors used for this account and others were those recommended by the Advisory Branch of Commission Advisory and Compliance Division.

IWS's \$300 estimate for office supplies is the company's recorded cost of printing, postage, copies, and envelopes for mailings in 1988. The Branch escalated the 1988 recorded amount to \$320 for 1989.

The Company's professional services estimate is \$200. The recorded cost of accounting and legal services in 1988 was \$285. The Branch escalated the recorded expense to obtain its \$300 estimate.

The Branch's \$183 estimate of property taxes is based on IWS's property tax bill from Santa Clara County for 1988/1989.

IWS was informed of the Branch's differing views of revenues and expenses and has stated that it accepts the Branch's estimates.

IWS is seeking this rate increase solely to meet its operating expenses; what little rate base it may have is unsupported by accounting records and presumably nearly completely depreciated. Because the evidence is currently incomplete, the Branch agrees that IWS should be granted the opportunity to develop additional information and present it at the time it applies for a rate base offset as described below.

A notice of the proposed rate increase and public meeting was mailed to each customer on November 28, 1988. No letters concerning the increase were received.

A Branch engineer conducted field investigations of IWS's facilities and service area on November 1, 1988 and January 6, 1989. Visible portions of the system were checked, company records researched and customers interviewed. The water system was found to be deficient in that the capacities of the storage tanks are inadequate to meet customer demand and a transmission line from a high elevation storage tank to a lower elevation storage tank also serves as a distribution line, effectively decreasing recharge.

On December 13, 1988 a public meeting was held at the Chemeketa Park Community Hall near IWS's service area. The Branch's representative described Commission rate setting procedures and IWS's representative explained the need for the rate increase. Seventeen people representing eleven customers attended the lively meeting. Most customers agreed that IWS needs a rate increase. There were several complaints of service problems, particularly water outages in the area served by the tanks on Idylwild Road. Most customers also agreed that IWS needs to begin a program of system improvements as soon as possible and urged it to do so.

In D.87-07-095 the Commission observed that IWS's plant does not meet the minimum requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards of Design and Construction," and ordered it to study and report on facility improvements needed to bring it into compliance. IWS is now seeking Commission approval to begin its service improvement program. IWS's program is certain to increase rates substantially. The Branch estimates that more than half of IWS's customers were contacted during the course of this rate case with most expressing approval of a service improvement program even when this would mean additional rate increases exceeding \$15.00 per customer per month. As noted above, most customers at the public meeting also favored improving the system.

The Branch recommends that IWS begin its service improvement program as soon as possible. This program should include installation of adequately sized storage tanks at both the Rainieri Lane and Idylwild Road sites and construction of a new, separate transmission line between those tanks at a total estimated cost of about \$55,000. IWS should be authorized to request rate increases by advice letter to begin recovering the reasonable costs of these improvements as they are completed and placed in service. IWS should also be authorized to present at that time any records it may have to support a rate increase for its existing rate base.

The Santa Clara County Department of Public Health may also order IWS to install a filtration and treatment plant in the near future at an estimated cost of \$45,000. Should this occur, the additional rate impact would be severe and customers should again be given an opportunity to consider their alternatives before any additional increases are granted. Accordingly, IWS should seek Commission approval to include the plant costs in rates at the time it applies for authorization for long term borrowing, or in a separate application if no long term borrowing is involved.

IWS currently has no conservation program. Its creek source high above the service area has so far continued to supply adequate water throughout the drought. Although its customers have suffered from frequent outages, those outages stem from the inadequate facilities discussed earlier rather than a water shortage. Because the creek's reliability in a third year of drought is unknown, the Branch recommends that IWS be required to draw up a conservation and rationing plan to be included in its tariffs. The plan should allow IWS 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, IWS should include the plan in its tariffs by an advice letter filing. The Branch is prepared to assist IWS in drawing up and filing such a plan.

One complaint has been received by the Commission's Consumer Affairs Branch in the last three years; it was minor and handled promptly. According to the Santa Clara County Department of Public Health, IWS's water meets applicable state health standards. The Branch's investigation shows that IWS has not been maintaining its books in accordance with the Uniform System of Accounts for Class B, C, and D Water Utilities as required by D.87-07-095, nor has it filed its 1987 annual report to the Commission as required by General Order

104. The Branch notes, however, that 1988 was IWS's first full year under Commission regulation and without having kept its books by the Uniform System of Accounts it might have a difficult time providing 1987 information in the form required.

IWS provides residential metered rate service with a minimum charge for the first 5,000 gallons and a single quantity block for usage above the minimum. In accordance with Commission policy, the Branch recommends changing to a service charge rate structure with a single quantity rate for all water used. Under the Branch's proposed rate design, the new service charge, which recovers 54% of IWS's fixed costs, is the same as the old minimum charge so that no customer bills will decrease.

The Branch recommends that the Commission authorize an increase in gross revenue of \$5,507 or 50.9%. This increase will allow IWS to recover its expenses with no return on rate base in test year 1989.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a typical metered residential customer using the system average of 8,800 gallons per month would increase from \$18.80 to \$28.38. 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's recommendations are reasonable and should be adopted.
4. IWS should begin a service improvement program as soon as possible, including installation of adequately sized storage tanks at both the Rainier Lane and Idylwild Road sites and construction of a new, separate transmission line between those tanks. IWS should be authorized to file advice letters to begin recovering the reasonable costs of these improvements as they are completed and placed in service. IWS should also be authorized to present at that time any records it may have to support a rate increase for its existing rate base.
5. IWS should be required to prepare and submit a water conservation and rationing plan to the Water Utilities Branch for review. The plan should allow it to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, IWS should file an advice letter to include the plan in its tariffs.
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 Idylwild Water System 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 new schedule shall be the date of filing.
2. Idylwild Water System is authorized to file advice letters to begin recovering the reasonable costs associated with the installation of storage tanks at the Rainieri Lane and Idylwild Road sites and construction of a new, separate transmission line between them as they are completed and placed in service. Idylwild Water System is also authorized to present at that time any records it may have to support a rate increase for its existing rate base.
3. Idylwild Water System 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 Idylwild Water System to declare a shortage and limit usage in the event supplies are insufficient to meet demand. Upon the Branch's review and concurrence, Idylwild Water System shall file an advice letter to include the plan in its tariffs.
4. Idylwild Water System shall comply with Decision 87-07-095 by maintaining its books in accordance with the Uniform System of Accounts for Class B, C, and D Water Utilities.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 12, 1989. The following commissioners approved it:

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

Commissioner Frederick R. Duda  
being necessarily absent, did  
not participate.

Commissioner Patricia M. Eckert  
present but not participating.



VICTOR R. WEISSER  
Executive Director

APPENDIX A

IDYLLWILD WATER SYSTEM

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	\$ 10,140	\$ 16,330	\$ 10,817	\$ 19,486	\$ 16,324
Flat Rate	0	0	0	0	0
Total Revenue	10,140	16,330	10,817	19,486	16,324
<u>Operating Expenses</u>					
Purchased Power	173	173	173	173	173
Materials	600	600	460	460	460
Contract Work	8,920	8,920	8,920	8,920	8,920
Other Plant Maint.	500	500	500	500	500
Office Supplies	300	300	320	320	320
Professional Services	200	200	300	300	300
Insurance	5,268	5,268	5,268	5,268	5,268
Reg. Comm. Expense	200	200	200	200	200
Subtotal	16,161	16,161	16,141	16,141	16,141
Depreciation Exp.	0	0	0	0	0
Property Tax	169	169	183	183	183
Payroll Tax	0	0	0	0	0
Income Taxes	0	0	0	766	0
Total Deductions	16,330	16,330	16,324	17,090	16,324
Net Revenue	( 6,190)	0	( 5,507)	2,396	0
<u>Rate Base</u>					
Average Plant	0	0	0	0	0
Avg. Depr. Reserve	0	0	0	0	0
Net Plant	0	0	0	0	0
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l & Supplies	0	0	0	0	0
Rate Base	0	0	0	0	0
Rate of Return	(Loss)	-	(Loss)	-	-

APPENDIX B  
IDYLWILD WATER SYSTEM  
Schedule No. 1  
RESIDENTIAL METERED SERVICE

APPLICABILITY

Applicable to all residential water service.

TERRITORY

Area known as Idylwild and vicinity, Santa Clara County.

RATES

Quantity Rate:		(C)
All water, per 1,000 gallons .....	\$1.52	(I)
Monthly Service Charge:		(C)
	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter .....	\$15.00	(C)

The Service Charge is a readiness-to-serve charge (C)  
which is applicable to all metered service and to |  
which is added the monthly charge computed at the |  
Quantity Rate. (C)

APPENDIX C  
 IDYLWILD WATER SYSTEM  
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:

<u>Monthly Usage, Gallons</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	15.00	15.00	0.00	0.0%
1,000	15.00	16.52	1.52	10.1
2,000	15.00	18.04	3.04	20.3
3,000	15.00	19.56	4.56	30.4
5,000	15.00	22.60	7.60	50.7
8,800 (avg.)	18.80	28.38	9.58	51.0
10,000	20.00	30.20	10.20	51.0
15,000	25.00	37.80	12.80	51.2
20,000	30.00	45.40	15.40	51.3
25,000	35.00	53.00	18.00	51.4
30,000	40.00	60.60	20.60	51.5
50,000	60.00	91.00	31.00	51.7



APPENDIX D  
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IDYLVILD WATER SYSTEM

ADOPTED QUANTITIES  
Test Year 1989

Federal Tax Rate: 15%  
State Tax Rate: 9.3%  
Local Franchise Rate: 0.0%

Expenses:

1. Purchased power	\$ 173
2. Purchased water	None
3. Payroll	(included in contract work)
4. Water testing (in contract work)	\$ 144
5. Insurance Expenses	
General Liability	\$ 4,918
Auto	350
Total	5,268
6. Property Taxes	183
Tax Rate	1.0509%
Assessed Value	\$ 10,888
Special Assessments	68

Service Connections

Metered Rate	48
Flat Rate	None

Metered Water Sales Used to Design Rates 5,059,000 gallons

## APPENDIX D

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## IDYLVILD WATER SYSTEM

ADOPTED TAX CALCULATIONS  
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 16,324	\$ 16,324
2.	Expenses	16,141	16,141
3.	Taxes Other Than Income	183	183
4.	Depreciation Expense	0	0
5.	Interest	0	0
6.	Taxable Income for State Tax	0	
7.	State Tax (@ 9.3%)	0	0
8.	Taxable Income for FIT		0
9.	Federal Income Tax (@ 15%)		0
10.	Total Income Tax		0