

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3441
April 12, 1989

R E S O L U T I O N

(RES. W-3441) PONDEROSA WATER COMPANY, (PWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$35,373
OR 33.7% ADDITIONAL ANNUAL REVENUE.

PWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 27, 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 \$35,373 or 35.6%. After removing the effects of PWC's user fee surcharges which are not considered for rate making, PWC's request shows a 1989 gross revenue of \$99,484 at present rates increasing to \$134,857 at proposed rates to produce a rate of return on rate base of 10.53%. PWC serves 407 metered customers in Ponderosa Hills Subdivision, Tuolumne Indian Rancheria, and Cherokee Valley, located north of Tuolumne in Tuolumne County.

The present rates became effective November 17, 1982 pursuant to Resolution W-3039 which authorized a general rate increase. PWC's rates include a surcharge which took effect on September 29, 1985 pursuant to Commission Decision 85-09-067 to repay a SDWBA loan. PWC also proposes to reduce its SDWBA surcharge as part of this filing.

The Branch made an independent analysis of PWC's summary of earnings. Appendix A shows PWC's and the Branch's estimated summary of earnings at present, requested and adopted rates for test year 1989. Appendix A shows differences in revenue, expenses and rate base.

The Branch's estimates of metered revenue are higher than PWC's because the Branch's estimate of water consumption in the test year is higher. The Branch's consumption estimate is based on the amount of water purchased and the system water losses during 1988, adjusted for customer growth. PWC could not explain how it derived its estimate.

The differences in estimates for operating expenses are in purchased water, purchased power, employee labor, management salary, office services and rentals, insurance, general expense, pensions and benefits, uncollectibles, refunds on advances, depreciation, property taxes, payroll taxes and income taxes.

The Branch's estimate of purchased water expense is slightly higher than PWC's due to the Branch's higher estimate of water consumption in the test year as noted above, and the Branch's use of the latest rate schedule from Tuolumne County Water System, PWC's supplier.

The Branch's \$7,440 estimate of purchased power is higher than PWC's. The Branch's estimate was derived by increasing the March, 1987 through February, 1988 recorded energy usage by the ratio of the estimated water usage for 1989 to that recorded during the earlier period. The Branch then applied Pacific Gas and Electric Company's most recent electric rates effective January 1, 1989. PWC's \$6,660 figure was based on an arbitrary increase in its 1987 purchased power cost.

The Branch's estimate for total payroll, which includes employee labor, management salaries, and office salaries, is \$36,900 expensed and \$1,970 capitalized. PWC's estimate is \$33,800, all expensed. In examining employees' duties, the Branch determined that one of PWC's employees should be classified as employee labor rather than management, and also increased the annual salary slightly. The Branch's \$8,520 figure for management salary is based on the owner's payroll figure found in PWC's workpapers but carried to its summary of earnings erroneously.

The Branch's \$270 estimate for office services and rentals is considerably lower than PWC's estimate of \$1,200. The Branch's estimate is based on the average of recorded amounts from 1985 to 1988, adjusted to reflect inflation and customer growth. The escalation factors used by the Branch for this and other accounts were those provided by the Advisory Branch of the Commission Advisory and Compliance Division. PWC could not recall how it devised its estimate.

PWC's \$3,890 estimate for insurance includes only the cost of its general liability policy, whereas the Branch added the \$500 additional cost of insurance on PWC's two vehicles.

The Branch's estimate for general expense of \$920 is lower than PWC's \$1,600. The difference is due to the Branch's having examined the 1988 recorded figures and excluding charges for several items not of benefit to PWC's ratepayers. PWC's could not recall how it reached its estimate.

The Branch's estimate for employee pensions and benefits is slightly lower than PWC's. The Branch's estimate is based upon later policy and premium information which PWC did not have available when it made its estimate.

PWC's \$400 uncollectibles estimate is based on its 1988 estimated figure adjusted to reflect amounts to be collected through a newly implemented third party notification system. The Branch based its \$120 estimate on the average recorded amounts from 1985 through 1987 because PWC's uncollectibles have been very erratic from year to year.

PWC included \$2,000 in refunds on advances as an expense in its summary of earnings. The Branch has excluded this amount because refunds on advances are compensated for through depreciation on the associated plant rather than as an expense for ratemaking.

The Branch's \$10,909 estimate of depreciation expense in the test year is lower than PWC's \$12,064 because PWC improperly included depreciation on contributed plant.

The Branch's \$2,310 estimate of property taxes is lower than PWC's \$3,750 because the Branch excluded penalty fees for late payments and removed one land parcel as explained under plant below.

The Branch's estimate of payroll taxes is lower than PWC's because PWC improperly estimated unemployment and workers' compensation insurance on total payroll without regard to the annual salary ceilings applicable to those taxes.

PWC estimated income taxes in the test year to be \$300 without explanation. The Branch's income tax estimate reflects current tax rates under the federal Tax Reform Act of 1986 and the corresponding state tax rate for 1989.

The difference between PWC and the Branch in rate base is due to differences in utility plant, depreciation reserve, contributions and working cash.

The Branch's \$546,839 average utility plant estimate is slightly lower than PWC's \$548,539. The Branch's figure reflects the exclusion of a land parcel classified by PWC as a future office and shop site, but for which it has no real plans for development. The Branch also included the capitalized portion of its employee labor salary in the utility plant account, and incorporated recorded 1988 plant additions that were not available to PWC when it made its estimate.

The Branch's estimate of average depreciation reserve is slightly lower than PWC's. Although PWC's annual reports since 1984 show a 2.6% depreciation rate, PWC's depreciation expense is not based on the 2.6% figure and PWC could not explain the discrepancy. The Branch's depreciation reserve estimate reflects this correction from 1984 forward and the minor plant difference noted earlier.

PWC has not been tracking depreciation on contributions properly in its annual reports and incorrectly used its \$50,000 gross contributed plant amount as its estimate of net contributions in its summary of earnings. The Branch recalculated historical depreciation on contributions and used the corrected \$25,300 net contributions figure.

To prevent future inconsistencies between the figures adopted by the Commission and the figures shown in PWC's annual reports, the Branch recommends that PWC be directed to record on its books of account the depreciation reserve and accumulated depreciation on contributions 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 \$146,244 for total depreciation reserve and \$27,900 for accumulated depreciation on contributions as of December 31, 1987.

The Branch used the revised simplified working cash procedure approved by the Commission on January 27, 1989 to calculate working cash allowance. PWC used as its estimate the balance in its cash account as shown in its annual report.

PWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 10.50%. After removing user fees as explained above, PWC's summary of earnings at its proposed rates shows a rate of return of 10.53%. The summary of earnings in Appendix A shows a rate of return of 9.57% at the Branch's recommended rates. This rate of return, although lower than 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, results in PWC's being granted the total revenue increase requested.

The authorized rate of return in the last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items. The Branch therefore recommends that the Commission find a rate of return on rate base not exceeding 10.50% to be reasonable for the purpose of future earnings tests for PWC.

PWC 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 3, 1988. Four letters of protest were received, all complaining about the magnitude of the increase requested. There were no service complaints.

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 19, 1988 an informal public meeting attended by approximately 40 customers was held in Tuolumne City near PWC's service area. A Branch engineer conducted the meeting and representatives of PWC were there to answer questions. The majority of the concerns expressed related to the magnitude of the increase proposed. A few customers complimented PWC on its quality of water served; there were no complaints regarding water service.

Branch engineers conducted a field investigation on October 4 and 18, 1988. Visible portions of the system were inspected and company records researched. The investigation indicated that service is satisfactory and that PWC's system is very well run and maintained and complies with the requirements of the Commission's G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction."

There are no outstanding Commission orders requiring system improvements. According to the California Department of Health Services, PWC's water meets all state health standards.

PWC currently has no conservation program. Its sole supplier, Tuolumne Water System, an agency of Tuolumne County, notified PWC 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, PWC should be required to draw up a water conservation and rationing plan to be included in its tariffs. The plan should allow PWC 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, PWC should include the plan in its tariffs by an advice letter filing. The Branch is prepared to assist PWC in drawing up and filing such a plan.

PWC provides annual metered service and irrigation service, although it has no irrigation customers.

PWC's present annual metered service schedule has a 300 cubic feet lifeline block and annual service charges which recover 76% of its fixed costs. The Branch proposes a metered rate design with service charges which would recover revenue equivalent to 56% of PWC's fixed expenses, and a single quantity rate for all water used. This is still slightly higher than the 50% fixed costs coverage recommended in the Commission's rate design policy for water companies established by D.86-05-064, but was necessary to preclude the possibility of customers' receiving a rate decrease at some combinations of meter size and usage. In designing service charges for each meter size the Branch used the standard ratios contained in the Commission's Standard Practice U-25, "Guide for Adjusting and Estimating Operating Revenues of Water Utilities," whereas PWC currently has ratios which differ from those prescribed.

PWC's annual metered service schedule also imposes surcharges to repay its SDWBA loan. Since the current surcharges' effective date, the number of customers has increased by about 11%. Because loan payments are constant, the surcharges per customer should be decreased as the number of customers increases. PWC requested the surcharge amounts be realigned to reflect customer growth, and after conferring with the Audit and Compliance Branch of Commission Advisory and Compliance Division, the Branch concurs. The recommended new, reduced monthly SDWBA surcharges are shown in Appendix B.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$35,373 or 33.7%. This increase provides a 9.57% estimated rate of return on rate base in test year 1989 and results in PWC's being granted the full revenue increase it requested.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer with a 3/4-inch meter using the system average of 1,300 cubic feet per month would increase from \$23.55 to \$31.55 per month, exclusive of the SDWBA surcharge. SDWBA surcharges for 3/4-inch metered customers would decrease from \$6.30 to \$4.80 per month. 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. PWC should be required to record on its books of account the depreciation reserve and accumulated depreciation on contributions 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 \$146,244 for total depreciation reserve and \$27,900 for accumulated depreciation on contributions as of December 31, 1987.
5. PWC should be required to prepare and submit a water conservation and rationing plan to the Branch for review. The plan should allow PWC to declare a shortage and limit usage in the even supplies are insufficient to meet demand. Upon the Branch's review and concurrence, PWC should include the plan in its tariffs by an advice letter filing.
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 Ponderosa 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. Ponderosa Water Company shall record on its books of account the depreciation reserve and accumulated depreciation on contributions 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. For the purpose of earnings tests in any future offset rate increase requests for Ponderosa Water Company, a rate of return on rate base not exceeding 10.50% shall be considered reasonable.
4. Ponderosa 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 Ponderosa Water Company to declare a shortage and limit usage in the even supplies are insufficient to meet demand. Upon the Branch's review and concurrence, Ponderosa Water Company shall include the plan in its tariffs by an advice letter filing.
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. OHANIAN
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

PONDEROSA 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>					
Flat Rate	0	0	0	0	0
Metered	\$ 99,484	\$134,857	\$104,886	\$143,987	\$140,259
Total Revenue	99,484	134,857	104,886	143,987	140,259
<u>Operating Expenses</u>					
Purchased Water	7,000	7,000	7,130	7,130	7,130
Purchased Power	6,660	6,660	7,440	7,440	7,440
Other Volume Related	5,500	5,500	5,500	5,500	5,500
Employee Labor	200	200	22,780	22,780	22,780
Materials	4,000	4,000	4,000	4,000	4,000
Contract Work	1,000	1,000	1,000	1,000	1,000
Office Salaries	5,600	5,600	5,600	5,600	5,600
Management Salaries	28,000	28,000	8,520	8,520	8,520
Transportation	5,300	5,300	5,300	5,300	5,300
Other Plant Maintenance	30	30	30	30	30
Office Serv. & Rent	1,200	1,200	270	270	270
Office Supplies	4,200	4,200	4,200	4,200	4,200
Professional Services	1,000	1,000	1,000	1,000	1,000
Insurance	3,890	3,890	4,400	4,400	4,400
General Expense	1,600	1,600	920	920	920
Pensions & Benefits	4,800	4,800	4,630	4,630	4,630
Uncollectibles	400	400	120	120	120
Refunds on Advances	2,000	2,000	—	—	—
Reg. Comm. Expense	0	0	0	0	0
Subtotal	82,380	82,380	82,840	82,840	82,840
Depreciation Exp.	12,064	12,064	10,909	10,909	10,909
Property Tax	3,750	3,750	2,310	2,310	2,310
Payroll Tax	3,674	3,674	2,830	2,830	2,830
Income Taxes	300	300	1,410	10,330	9,475
Total Deductions	102,168	102,168	100,299	109,219	108,365
Net Revenue	(2,684)	32,689	4,587	34,768	31,894
<u>Rate Base</u>					
Average Plant	548,539	548,539	546,839	546,839	546,839
Avg. Depr. Reserve	165,055	165,055	164,377	164,377	164,377
Net Plant	383,484	383,484	382,462	382,462	382,462
Less: Advances	30,859	30,859	30,859	30,859	30,859
Contributions	50,000	50,000	25,300	25,300	25,300
Plus: Working Cash	3,500	3,500	2,786	2,786	2,786
Mat'l & Supplies	4,250	4,250	4,250	4,250	4,250
Rate Base	310,375	310,375	333,339	333,339	333,339
Rate of Return	(Loss)	10.53%	1.38%	10.43%	9.57%

APPENDIX B

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PONDEROSA WATER COMPANY

Schedule No. 1A

(T)

ANNUAL METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Ponderosa Hills Subdivision, Tuolumne Indian Rancheria, and Cherokee Valley, located north of Tuolumne, Tuolumne County.

(T)

RATES

Service Charge:

	<u>Per Meter</u> <u>Per Year</u> <u>Charge</u>	<u>Per Meter</u> <u>Per Month</u> <u>Surcharge*</u>	
For 5/8 x 3/4-inch meter	\$138.00 (I)	\$ 3.20 (R)	
For 3/4-inch meter	152.40	4.80	
For 1-inch meter	207.60	8.00	
For 1 1/2-inch meter	276.00	16.00	
For 2-inch meter	373.20 (I)	25.60 (R)	

Quantity Rate:

(T)

All water, per 100 cu. ft. \$ 1.45

(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.

*NOTE: This surcharge is in addition to the regular metered water bill. The monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act (SDWBA) loan authorized by Decision 85-09-67.

(D)

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PONDEROSA WATER COMPANY

Schedule No. 1

ANNUAL METERED SERVICE (continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a 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 in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.
2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the 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 charge shall be due the customer.

APPENDIX C

PONDEROSA WATER COMPANY

COMPARISON OF RATES (1)

<u>Metered Rate Service</u>	<u>Per Service Connection</u>		<u>Per Month</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
Quantity Rates:			
First 300 cu.ft. or less per month	\$ 0.65	\$ 1.45	123.1%
Over 300 cu.ft., per 100 cu.ft.	0.90	1.45	61.1
Service Charge:			
For 5/8 x 3/4-inch meter	9.50	11.50	21.1%
For 3/4-inch meter	12.60	12.70	0.8
For 1-inch meter	17.00	17.30	1.8
For 1-1/2-inch meter	23.00	23.00	0.0
For 2-inch meter	30.25	31.10	2.8

A monthly bill comparison for a customer with a 3/4-inch meter is shown below:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$12.60	\$ 12.70	\$ 0.10	0.8%
5	16.35	19.95	3.60	22.0
10	20.85	27.20	6.35	30.5
13 (average)	23.55	31.55	8.00	34.0
15	25.35	34.45	9.10	35.9
20	29.85	41.70	11.85	39.7
30	38.85	56.20	17.35	44.7
40	47.85	70.70	22.85	47.8
50	56.85	85.26	28.35	49.9

(1) Not including SDWBA surcharge

APPENDIX D

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PONDEROSA WATER COMPANY

ADOPTED QUANTITIES

Test Year 1989

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

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.	
Rate Schedule	A-1
Effective Date of Schedule	1/1/89
KWh Used Total	69,063
KWh Used - Summer	35,775
KWh Used - Winter	33,288
\$/KWh - Summer	0.10976
\$/KWh - Winter	0.09024
Summer Charge	\$ 3,927
Winter Charge	3,004
Customer Charge - single phase	360
Customer Charge - polyphase	150
Total Purchased Power	\$ 7,440

2. Purchased Water

Seller	Tuolumne County Water System
Schedule	Sched. B, Resale Service - Untreated Water
Quantity (Miners Inches)	3,471
(Ccf)	75,174
Effective Schedule Date	1/1/89
Monthly Rates	
Service Charge	\$ 22.00
First 50 MID, per MID	2.05
Next 150 MID, per MID	2.00
Next 200 MID, per MID	1.90
Total	\$ 7,130

3. Payroll & Employee Benefits

Employee Labor	\$ 22,780
Management Salary	8,520
Office Salary	5,600
Total Payroll	36,900
Pensions and Benefits	4,630
Payroll Taxes	2,830

APPENDIX D
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4. Ad Valorem Taxes	\$ 2,310
Tax Rate	1.0018%
Assessed Value	\$231,017
5. Water Testing (in contract work)	\$ 1,000

Service Connections:

Metered

5/8 x 3/4-inch	41
3/4-inch	365
1-inch	1
1 1/2-inch	0
2-inch	0
	<u>407</u>

Metered Water Sales Used To Design Rates: 54,426 Ccf

ADOPTED TAX CALCULATIONS
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 140,259	\$ 140,259
2.	Expenses	82,840	82,840
3.	Taxes Other Than Income	5,140	5,140
4.	Depreciation Expense	10,909	10,909
5.	Interest	0	0
6.	Taxable Income for State Tax	41,370	
7.	State Tax (@ 9.3%)	3,847	3,847
8.	Taxable Income for FIT		37,523
9.	Federal Income Tax (@ 15%)		5,628
10.	Total Income Tax		9,475

(END OF APPENDIX D)