

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3442
April 12, 1989

RESOLUTION

(RES. W-3442) LOS MOLINOS WATER WORKS, (LMWW). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$29,311
OR 126.3% ADDITIONAL ANNUAL REVENUE.

LMWW, by draft advice letter accepted by the Water Utilities Branch (Branch) on October 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 \$24,641 or 100.0%. LMWW later revised its request to an increase of \$29,311 or 126.3%. LMWW estimates that 1989 gross revenue of \$24,641 at present rates would increase to \$53,952 at proposed rates to produce a rate of return on rate base of 22.08%. LMWW serves 323 metered customers in the unincorporated community of Los Molinos and vicinity, Tehama County.

The present metered rates became effective June 30, 1970 pursuant to Resolution W-1240 which authorized a general rate increase.

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

The Branch's estimate of revenue at present rates is lower than LMWW's and at LMWW's proposed rates is higher. The differences are due to LMWW's inadvertent use of total estimated service connections rather than active connections, and arithmetic errors in LMWW's calculation of quantity revenue at present rates.

The differences in estimates for operating expenses are in purchased power, materials, transportation, office supplies, professional services, insurance, general expense, regulatory commission expense, depreciation, property taxes, payroll taxes and income taxes.

The Branch's \$9,837 purchased power estimate was derived by multiplying the energy usage per unit of water sold during 1988 by the Branch's estimated test year water consumption, then applying Pacific Gas & Electric Company's most recent electric rates effective January 1, 1989. LMWW's estimate was based on an arbitrary twenty percent increase of its recorded purchased power expense for 1987.

The Branch's \$482 estimate of materials expense is higher than LMWW's \$350. The Branch based its estimate on the average recorded material costs from 1984 through 1987, escalated for inflation and customer growth. LMWW escalated its estimated \$296 expense for 1988 to a round figure. The escalation factors used by the Branch for this and other accounts were those provided by the Advisory Branch of Commission Advisory and Compliance Division.

The Branch's estimate of transportation expense is higher than LMWW's. Both used the same mileage, but the Branch used \$0.24 per mile, the rate allowed by the Internal Revenue Service for income tax purposes, while LMWW used \$0.21 per mile.

The Branch's estimate of office supplies and expense is higher than LMWW's. The Branch's \$1,360 estimate is based on the average recorded cost per customer from 1984 through 1987, escalated to the test year. LMWW did not provide justification for its estimate.

The Branch's \$480 estimate for professional services is higher than LMWW's \$400 because LMWW inadvertently miscalculated the amount. The Branch used LMWW's figure for the recurring monthly professional services cost and annualized it to derive its estimate.

The Branch estimated \$7,100 for insurance compared to LMWW's \$6,700. Both used the 1987 recorded expense as a base, but LMWW applied escalation for one year while the Branch applied escalation for two.

The Branch's estimate of general expense is higher than LMWW's. The Branch used the average recorded cost per customer from 1984 through 1987, escalated for inflation to the test year. LMWW used a similar analysis, but its estimate differs because it used a different customer estimate and did not escalate for inflation.

The Branch's figure for regulatory commission expense is slightly higher than LMWW's. Both the Branch and LMWW spread the cost of this rate case over three years, but the Branch included additional time for LMWW to respond to a data request which LMWW did not know about when it made its estimate.

The Branch's estimate of depreciation expense is higher than LMWW's because of the Branch's higher estimate of average plant as explained later in the utility plant discussion. Both the Branch and LMWW used a 2.7% depreciation rate.

The Branch's estimate of property taxes is higher than LMWW's. LMWW's owner passed away in 1988 and the utility is being run by his family. Because the water company plant is intermingled in the property tax records with other property, the assessed value could not easily be identified at this time. The Branch therefore used net plant value as a surrogate for assessed value and applied the current property tax rate. LMWW provided no support for its estimate.

The Branch's estimate of payroll taxes is slightly higher than LMWW's because LMWW used an incorrect rate for workers' compensation insurance.

The Branch's figures for income taxes reflect the current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1989. LMWW estimated income taxes in the test year to be \$300 without an explanation.

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

The Branch's estimate of plant in service is higher than LMWW's due to a difference in plant additions for the test year. LMWW underestimated the cost for installation of a new well because it had to be drilled deeper than expected. The cost of the well was unavailable to LMWW at the time of its filing.

The difference in depreciation reserve is due to the differences in plant in service and depreciation expense as explained above.

LMWW based its \$5,800 working cash allowance estimate on the simplified method from the Commission's Standard Practice U-16, "Determination of Working Cash Allowance." The Branch used the revised simplified working cash procedure approved by the Commission on January 27, 1989 which replaced U-16's simplified method.

LMWW's draft advice letter initially requested rates which it estimated would produce a rate of return on rate base of 10.50%. After being informed that the Branch's preliminary recommendations indicated that a larger increase could be justified, LMWW decided to increase its request. 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.

LMWW 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 LMWW's initially proposed rate increase and public meeting was mailed to each customer on November 3, 1988. Two anonymous letters of protest were received, both apparently from the same party, complaining that if an increase is warranted, water pressures should be improved. One of the letters also expressed concern about the operational capability of LMWW's new management. LMWW renotified its customers by mail of the revised, higher request on March 3, 1989, and the Branch received a two more anonymous protest letters, again apparently from the same party, with the same objections.

On November 16, 1988 an informal public meeting attended by thirteen customers was held in LMWW's service area. A Branch engineer conducted the meeting and LMWW's manager was there to answer questions. A representative from the California Department of Health Services (DHS) also attended to answer questions. Most of the concerns expressed related to low water pressure problems. Others indicated an interest in having LMWW post the results of its chemical tests for public viewing.

Branch engineers conducted a field investigation of LMWW's water system on October 18 and 19, and November 17, 1988. Visible portions of the system were inspected, pressures checked, company records researched and customers interviewed. The investigation revealed that service is generally satisfactory but that water pressure does fluctuate around minimum standards. Two customers contacted during the field investigation complimented LMWW on its service and water quality but also complained about poor water pressures. The cause of low pressures appears to be a preponderance of old, undersized mains throughout the system. The second well LMWW is presently drilling and equipping is located in a different part of the system and should help raise water pressures.

In the longer term, LMWW should begin a main replacement program, concentrating initially on those sections of main that contribute most to system pressure losses. The Branch does not, however, recommend that the Commission order LMWW to undertake such a program at this time because of the high cost and the fact that pressures are marginal and should be improved by the additional well. LMWW's owner is making progress in upgrading the system and has plans for further improvements.

According to DHS, LMWW's water meets all state health standards. There are no outstanding Commission orders requiring system improvements.

Both the Branch and DHS recommend the installation of production meters on LMWW's existing well and its new well as required by G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." LMWW should be authorized to file an advice letter to begin recovering the reasonable costs of the new production meters when they are placed in service.

With its two deep wells and fully metered system, LMWW foresees no problems with water supply. No additional conservation measures are needed at this time.

LMWW's rates consist of a general metered service schedule with a minimum charge for usage up to 5 Ccf (one Ccf is one hundred cubic feet) per month and three declining quantity blocks. The Branch recommends moving to a service charge that recovers 50% of the fixed costs and a single metered quantity rate. This is consistent with the Commission's rate design policy for water companies established by Decision 86-05-064 which calls for phasing out lifeline rates, allows for reduction of multiple blocks to a single block and recovery of up to 50% of fixed expenses through the service charge.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$29,311 or 126.3%. This increase provides a 10.50% 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 customer with a 5/8 x 3/4-inch meter using the system average of 20 Ccf per month would increase from \$6.15 to \$13.50 per month. A comparison of 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. LMWW should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at each source of supply. LMWW should be authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been placed in service.
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 Los Molinos Water Works 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 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. Los Molinos Water Works shall install suitable measuring devices to determine water production at each source of supply within one year of the effective date of this resolution. Los Molinos Water Works is authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been placed in service.
3. 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



VICTOR R. WEISSER
Executive Director

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

Commissioner Patricia M. Eckert present but not participating.

APPENDIX A

LOS MOLINOS WATER WORKS

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	24,641	53,952	23,202	58,211	52,213
Total Revenue	24,641	53,952	1/ 23,202	58,211	52,213
<u>Operating Expenses</u>					
Purchased Power	8,684	8,684	9,837	9,837	9,837
Employee Labor	5,800	5,800	5,800	5,800	5,800
Materials	350	350	482	482	482
Contract Work	1,000	1,000	1,000	1,000	1,000
Other Plant Maint.	600	600	600	600	600
Office Salaries	5,224	5,224	5,224	5,224	5,224
Management Salaries	6,000	6,000	6,000	6,000	6,000
Transportation	1,250	1,250	1,440	1,440	1,440
Office Services & Rent	882	882	882	882	882
Office Supplies	900	900	1,360	1,360	1,360
Professional Services	400	400	480	480	480
Insurance	6,700	6,700	7,100	7,100	7,100
General Expense	400	400	446	446	446
Reg. Comm. Expense	137	137	158	158	158
Subtotal	38,327	38,327	40,809	40,809	40,809
Depreciation Exp.	2,554	2,554	2,730	2,730	2,730
Property Tax	653	653	729	729	729
Payroll Tax	1,653	1,653	1,687	1,687	1,687
Income Taxes	0	300	0	2,807	1,502
Total Deductions	43,187	43,487	45,955	48,762	47,457
Net Revenue	(18,546)	10,465	(22,753)	9,449	5,056
<u>Rate Base</u>					
Average Plant	103,957	103,957	110,457	110,457	110,457
Avg. Depr. Reserve	48,593	48,953	48,681	48,681	48,681
Net Plant	55,364	55,364	61,776	61,776	61,776
Less: Advances	14,621	14,621	14,621	14,621	14,621
Contributions	0	0	0	0	0
Plus: Working Cash	5,660	5,660	0	0	0
Mat'l & Supplies	1,000	1,000	1,000	1,000	1,000
Rate Base	47,403	47,403	48,155	48,155	48,155
Rate of Return	(Loss)	22.08% 1/	(Loss)	19.62%	10.50%

1/ Revised by IMW to reflect Branch's conclusions. Rate of return initially shown as 10.50%.

APPENDIX B
 LOS MOLINOS WATER WORKS
 Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The community of Los Molinos and vicinity, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		(C)
All water, per 100 cu.ft.	\$ 0.415	(I)
Service Charge:		(C)
For 5/8 x 3/4-inch meter.....	\$ 5.20	(I)
For 3/4-inch meter.....	6.85	
For 1-inch meter.....	8.00	
For 1 1/2-inch meter.....	13.75	
For 2-inch meter.....	22.90	(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.		(C) (C)

APPENDIX C

LOS MOLINOS WATER WORKS

COMPARISON OF RATES

Metered Rate Service

<u>Per Meter Per Month</u>	
<u>Present Rates</u>	<u>Recommended Rates</u>

Quantity Rates:

First 500 cu.ft. or less	\$ 2.50
Next 500 cu.ft., per 100 cu.ft.	0.33
Next 9,000 cu.ft., per 100 cu.ft.	0.20
Next 10,000 cu.ft., per 100 cu.ft.	0.13
All water, per 100 cu.ft.	\$ 0.415

Minimum Charge/Service Charge

Minimum Charge

Service Charge

For 5/8 x 3/4-inch meter	\$ 2.50	\$ 5.20
For 3/4-inch meter	3.30	6.85
For 1-inch meter	3.85	8.00
For 1 1/2-inch meter	6.60	13.75
For 2-inch meter	11.00	22.90

A monthly bill comparison for a resident with a 5/8 x 3/4-inch meter is shown below:

<u>Monthly Usage</u> <u>100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 2.50	\$ 5.20	\$ 2.70	108.0%
5	2.50	7.28	4.78	191.2
10	4.15	9.35	5.20	125.3
15	5.15	11.43	6.28	121.9
20 (average)	6.15	13.50	7.35	119.5
30	8.15	17.65	9.50	116.6
40	10.15	21.80	11.65	114.8
50	12.15	25.95	13.80	113.6

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LOS MOLINOS WATER WORKS

ADOPTED QUANTITIES
Test Year 1989

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

Expenses:

1. Purchased Power

Pacific Gas & Electric Co.

Rate Schedule	A-1
Effective Date of Schedule	1/1/89
Kwh Used Total	95,204
Kwh Used - Summer	56,151
Kwh Used - Winter	39,053
\$/Kwh - Summer	0.10976
\$/Kwh - Winter	0.09024
Summer Charge	\$ 6,163
Winter Charge	3,524
Service Charge	150
Total Purchased Power	9,837

2. Purchased Water

None

3. Payroll & Employee Benefits

Employee Labor	\$ 5,800
Office Salaries	5,224
Management Salaries	6,000
Total Payroll	<u>17,024</u>
Payroll Taxes	1,687

4. Ad Valorem Taxes

Tax Rate	\$ 729
Assessed Value	1.18%
	\$ 61,776

5. Water Testing (in contract work)

\$ 577

APPENDIX D
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LOS MOLINOS WATER WORKS

Service Connections

Metered		
5/8 x 3/4-inch.....	311	
3/4-inch.....	1	
1-inch.....	10	
1 1/2-inch.....	1	
2-inch.....	0	
Total	323	

Metered Water Sales Used To Design Rates: 76,777 Ccf

ADOPTED TAX CALCULATIONS

1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 52,513	\$ 52,513
2.	Expenses	40,809	40,809
3.	Taxes Other Than Income	2,416	2,416
4.	Depreciation Expense	2,730	2,730
5.	Interest	0	0
6.	Taxable Income for State Tax	5,558	
7.	State Tax (@ 9.3%)	610	610
8.	Taxable Income for FIT		5,948
9.	Federal Income Tax (@ 15%)		892
10.	Total Income Tax		1,502

(END OF APPENDIX D)