

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3443
April 26, 1989R E S O L U T I O N

(RES. W-3443) LOS GUILIOS WATER WORKS, (LGWW).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$6,572 OR 164.4% ADDITIONAL ANNUAL REVENUE.

LGWW, by draft advice letter received by the Water Utilities Branch (Branch) on February 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 an unspecified amount. LGWW presently serves approximately 21 metered customers in an area approximately two and one half miles south of the community of Kenwood, Sonoma County.

LGWW provides water service as an element of the operations of Morton's Warm Springs, Inc., a resort, and was declared to be a water utility by Decision (D.) 88-01-015 (January 13, 1988) as a result of a customer complaint alleging that the company was about to impose a substantial general rate increase without authority. Its metered service schedule was filed and became effective March 1, 1988, although the rates filed had been in use for some time.

Upon being declared a utility, LGWW provided estimates of its utility-related revenues, expenses and plant and requested a determination of what level of rates could be justified. Because it had not kept separate utility accounting records, its initial expense and plant estimates were questionable. The Water Branch therefore asked the Auditing and Compliance Branch of Commission Advisory and Compliance Division to perform an audit of LGWW's books, and an audit was performed. The Branch used the information contained in the audit report and an independent analysis of LGWW's revenue, expenses and rate base to derive the summary of earnings at present and recommended rates presented in Appendix A. Appendix A shows differences in revenue, expenses and rate base.

The Branch's estimate of revenue at present rates is higher than LGWW's. The Branch used the actual recorded bills for a fourteen month period through early 1988, adjusted to a twelve month basis, and imputed revenue from the unmetered services owned by Morton's as discussed later. LGWW used an average of the last several years' recorded figures which is not representative of operations in the test year.

The differences in estimates for operating expenses are in materials, management salaries, transportation, other plant maintenance, office supplies, professional services, insurance, general expenses, depreciation, property taxes, payroll taxes and income taxes.

As noted earlier, IGWW is one element of Morton's Warm Springs, Inc. IGWW determined the utility's share of expenses for management labor and legal and accounting fees as a percentage of the expense for Morton's and applied that percentage to Morton's other expenses to yield most of IGWW's estimates.

The Branch's estimate of purchased power is the same as IGWW's. There was no way to determine the kilowatt-hours consumed by the pump supplying IGWW's customers because there is only one meter serving both IGWW and the resort, so the Branch made an approximate determination based on the amount of water sold and the size of the pump. The Branch's result was close to IGWW's allocated estimate so it was accepted. However, such an approximate estimating method is unsatisfactory in the longer term and the Branch recommends that IGWW obtain a separate electric meter for the water company pump motor.

The Branch's estimate of materials expense is much lower than IGWW's. There was insufficient backup for IGWW's figure, but the Branch agrees that there is a need for some miscellaneous materials expense and thus has included a nominal \$50. IGWW used a fixed percentage of the resort's total materials expense to determine its estimate.

The Branch's estimate of management salaries is lower than IGWW's. IGWW used a figure of 98 hours per year to manage the water system in arriving at the percentage of overall expenses to be allocated to IGWW. The Branch accepted that figure and applied an hourly rate more appropriate to a very small water company. IGWW used a fixed percentage of the resort's total management salary to determine its estimate.

The Branch's estimate of transportation expense is higher than IGWW's. The Branch's estimate is based on estimated vehicle mileage and a rate of \$0.24 per mile, the amount allowed as an income tax deduction by the Internal Revenue Service for automobiles and light trucks used in business. IGWW used a fixed percentage of the resort's total transportation expense to determine its estimate.

Branch recommends no expense be allowed for other plant maintenance because the audit showed no records of such expense. IGWW used a fixed percentage of the resort's total maintenance expense to determine its estimate.

The Branch's estimate of office supplies expense is lower than IGWW's. The Auditing & Compliance Branch's audit of IGWW's books found sufficient backup for \$347. IGWW used a fixed percentage of the resort's total office expense to determine its estimate.

The Branch's estimate of professional services is lower than IGWW's. The Branch included an estimate of \$50 in this account for water testing expense. IGWW used a fixed percentage of the resort's total professional expense to determine its estimate.

The Branch's estimate of insurance expense is lower than IGWW's. The Branch obtained from the insurance agent who sold the policy to Morton's an estimate of what portion of the resort's total insurance was due to its water operation, then escalated this amount to 1989 dollars. The Branch's escalation factors for this and other accounts were those recommended by the Advisory Branch of the Commission Advisory and Compliance Division. IGWW used a fixed percentage of the resort's total insurance bill to determine its estimate.

The Branch's estimate of general expense is lower than IGWW's. There was insufficient backup for IGWW's claim for general expense but Branch has placed \$62 that IGWW had classified as other taxes and licenses into this account. IGWW used a fixed percentage of the resort's total general expense as its estimate.

The Branch's estimate of depreciation expense is much lower than IGWW's. IGWW used an extraordinarily high 10% depreciation rate applied to its higher plant estimate to estimate depreciation expense while the Branch performed a straight line remaining life depreciation study as prescribed in the Commission's Standard Practice U-4, "Determination of Straight-Line Remaining Life Depreciation Accruals," to arrive at its recommended 2.2% depreciation rate. The Branch recommends that IGWW be ordered to use a 2.2% depreciation rate in calculating depreciation until a future study reviewed by Branch indicates that a different rate should be used.

The Branch's estimate of property taxes is lower than IGWW's. Because the utility plant is not assessed or billed separately from the resort operation as a whole, the Branch evaluated the relationship between assessed value and net utility plant for several recent small water utility rate cases and applied it to IGWW's case. IGWW used a fixed percentage of the resort's total property tax bill to determine its estimate.

The Branch used the latest tax rates in calculating its payroll taxes estimate. IGWW did not estimate payroll taxes.

The Branch's figures for income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1989. IGWW did not include income tax expense.

The differences in rate base are due to differences in plant in service and depreciation reserve.

The Branch's estimate of plant in service is lower than IGWW's. Water Branch used the original cost of plant as determined by Auditing and Compliance Branch's audit, which included two years' plant additions which IGWW had not considered in its estimate, to determine the original cost of the plant. Other plant additions included by IGWW could not be substantiated.

The Branch's estimate of depreciation reserve is lower than IGWW's. The Branch brought the depreciation reserve forward from 1959 through test year 1989 using the proper depreciation rates as described in the paragraph relating to depreciation expense. IGWW estimated its depreciation reserve based on its larger plant estimate and depreciation rates as high as 10% as explained earlier.

IGWW did not request a specific rate of return. 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.

As noted earlier, IGWW's draft advice letter did not request a specific rate increase. At the conclusion of its summary of earnings analysis, the Branch contacted IGWW's owner and discussed the Branch's estimating methods and results, and the owner concurred with the Branch's recommended overall increase. The Branch subsequently imputed additional revenues for the owner's unmetered connections in response to the customer letter discussed below, thus reducing slightly the Branch's recommended increase.

A notice of the proposed rate increase and public meeting was mailed to each customer on February 23, 1989. On March 8, 1989 an informal public meeting attended by twenty people representing about fourteen of IGWW's twenty-one customers was held in Kenwood, close to the service territory. A Branch engineer conducted the meeting and IGWW's owner was there to represent the utility. Questions were asked regarding estimating techniques, methods of ensuring that the expenses were only for the water company and not the resort as a whole, the reasonableness of the insurance estimate specifically, pressure problems experienced by customers on the high end of the system on hot summer holidays, and water odor.

The Branch has received letters of protest from five customers. One protestant claimed that the increase requested worked out to 292%, but the Branch's review of his figures found a mathematical error; correcting the error confirmed that the notice was correct. The second protestant complained that his meter was incorrectly installed; IGWW acknowledged the problem and will remedy it. The third and fourth letters were from the same customer family and complained of the high cost of liability insurance and the magnitude of the increase. The fifth was a petition with signatures representing five families. The petition complained that customers were being required to bear costs properly assignable to Morton's Warm Springs, Inc., and asked that meters be installed on Morton's presently unmetered connections. As a result, the Branch has imputed additional revenue for those connections and recommends the owner be required to install meters to track his future usage. IGWW concurs.

A Branch engineer conducted a field investigation of IGWW's service area on April 11, 1988. Visible portions of the system were inspected, pressures checked, and company records researched. The investigation revealed that service is satisfactory. No major water supply or water quality problems were found. The Sonoma County Environmental Health Department was contacted and confirmed that IGWW's water meets all applicable state standards and that there are no water quality problems.

IGWW has an artesian well in good condition and an abundant water supply. All of its customers are metered with the exception of those hookups belonging to the owner. No additional conservation measures are needed.

IGWW's well does not have a meter to record production as required by G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." In order to evaluate the well pump's power consumption and to alert IGWW's management if the pump should show a decline in efficiency which may affect water service, the Branch recommends that IGWW be directed to install a production meter at the well. IGWW should be authorized to file an advice letter to begin recovering the reasonable cost of the meter after it has been put into operation.

IGWW's current rates consist of an annual service charge and a single quantity rate for all water used. The Branch recommends a rate structure with a service charge that recovers 50% of fixed costs and a single metered quantity block. 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 for reduction of multiple blocks to a single block and recovery of up to 50% of fixed expenses through the service charge.

In February, 1982 the Commission adopted a policy of capping small water company rate increases at 100% per year. The revenues deferred by capping are made up, with interest, through rates approved for the subsequent year. Rates are lowered to their final level in the third year when all deferred revenues and interest have been recovered. A rate increase greater than 100% in the first year is permitted when necessary to eliminate a negative rate of return or out-of-pocket losses.

For the first year, the Branch recommends that the Commission authorize an increase of \$5,235 or 130.9% which would increase annual operating revenue from \$3,998 at present rates to \$9,233 at the recommended rates shown in Appendix B. A first year increase greater than 100% is needed to eliminate the negative rate of return. For the second year, the Branch recommends an increase of \$2,814 or 30.5% to increase estimated annual operating revenue from \$9,233 to \$12,047 at the recommended rates shown in Appendix B as the interim rates effective May 1, 1990. This amount includes \$1,337 of revenue and \$140 of interest foregone during the first year. Finally, the Branch recommends that, for the third year, the Commission order a decrease of \$1,477 or 12.3% which would lower estimated annual operating revenue from \$12,047 at the second year rates to \$10,570 at the recommended rates shown in Appendix B as the final rates effective May 1, 1991. These rates produce a 10.50% rate of return on rate base.

At the Branch's final recommended rates shown in Appendix B, the bill for a typical metered customer using the system average of 6,500 gallons monthly would increase from \$13.68 per month presently to \$31.25 per month the first year, increase further to \$40.85 per month the second year, and finally decrease to \$35.79 the third year and thereafter. A comparison of customer bills at 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. IGWW should be ordered to have installed a separate electric meter for the pump which supplies the water utility. IGWW should be allowed to file an advice letter to begin recovering the reasonable costs of its installation after it has been placed in service.
5. IGWW should be ordered to use a 2.2% depreciation accrual rate until a future straight-line remaining life depreciation study reviewed by the Water Branch justifies use of a different rate.
6. IGWW should be ordered to install meters on the presently unmetered connections serving water to Morton's picnic areas, restrooms and dressing rooms. IGWW should be allowed to file an advice letter to begin recovering the reasonable costs of these meters after they have been placed in service.
7. IGWW should be ordered to comply with G.O. 103 by installing a suitable measuring device or otherwise determining production at its source of supply. IGWW should be allowed to file an advice letter to begin recovering the reasonable costs of its installation after it has been placed in service.
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 Los Guilicos Water Works 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.

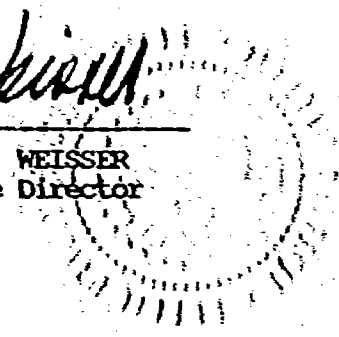
2. Los Guillicos Water Works shall within one year of the effective date of this resolution have a meter installed which measures only the amount of electricity used by the water company pump.
3. Los Guillicos Water Works shall use a 2.2% depreciation accrual rate until such time as a future straight-line remaining life depreciation study reviewed by the Water Branch justifies use of a different rate.
4. Los Guillicos Water Works shall within one year install meters on the presently unmetered connections serving water to Morton's Warm Springs, Inc.'s picnic areas, restrooms and dressing rooms.
5. Los Guillicos Water Works shall comply with General Order 103 by installing a suitable measuring device or otherwise determining production at its source of supply within one year of the effective date of this resolution.
6. Los Guillicos Water Works is authorized to file an advice letter to begin recovering the reasonable costs of its electric meter, water meter and production meter installations required by Ordering Paragraphs 2, 4 and 5 after they have been placed in service.
7. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 26, 1989. The following commissioners approved it:

G. MITCHELL WILK
Président
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners



VICTOR R. WEISSER
Executive Director



APPENDIX A

LOS GUILICOS 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>					
Metered	\$ 2,972	\$ 9,936	\$ 3,998	\$ 10,570	\$ 10,570
Flat Rate	0	0	0	0	0
Total Revenue	2,972	9,936	3,998	10,570	10,570
<u>Operating Expenses</u>					
Purchased Power	787	787	787	787	787
Employee Labor	106	106	106	106	106
Materials	1,343	1,343	50	50	50
Contract Work	600	600	600	600	600
Management Salaries	4,088	4,088	980	980	980
Transportation	505	505	625	625	625
Other Plant Maintenance	156	156	0	0	0
Office Supplies	417	417	347	347	347
Professional Services	78	78	50	50	50
Insurance	5,000	5,000	4,775	4,775	4,775
General Expense	239	239	62	62	62
Reg. Comm. Expense	0	0	0	0	0
Subtotal	13,319	13,319	8,382	8,382	8,382
Depreciation Exp.	2,972	2,972	512	512	512
Property Tax	907	907	110	110	110
Payroll Tax	0	0	148	148	148
Income Taxes	0	0	81	325	325
Total Deductions	17,198	17,198	9,233	9,477	9,477
Net Revenue	(14,226)	(7,262)	(5,235)	1,093	1,093
<u>Rate Base</u>					
Average Plant	26,573	26,573	24,253	24,253	24,253
Avg. Depr. Reserve	18,994	18,994	13,848	13,848	13,848
Net Plant	7,579	7,579	10,405	10,405	10,405
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	7,579	7,579	10,405	10,405	10,405
Rate of Return	(Loss)	(Loss)	(Loss)	10.50%	10.50%

APPENDIX B
LOS GUILICOS WATER WORKS

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivisions known as Morton Warm Springs Resort and vicinity, located 2-1/2 miles south of Kenwood, Sonoma County.

RATES

	<u>Per Meter Per Year</u>			
	<u>Effective Dates</u>			
	1989	5-1-90	5-1-91	
Quantity Rate:				(T)
All use, per 1000 gallons	\$ 2.73	\$ 3.63	\$ 3.16	(I)
Service Charge:				
For 5/8 x 3/4-inch meter	\$147.00	\$189.00	\$168.00	(I)
For 3/4-inch meter	162.00	207.00	183.00	
For 1-inch meter	222.00	282.00	252.00	
For 1 1/2-inch meter	297.00	375.00	336.00	
For 2-inch meter	402.00	507.00	453.00	(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.

APPENDIX C

LOS GUILICOS WATER WORKS

COMPARISON OF RATES

Comparison of monthly bills at present rates and the Branch's recommended final rates for customers with 3/4-inch meters:

Monthly Usage, Gallons	Present Bills	Recommended Bills Effective			Overall Percentage Increase
		5/89	5/90	5/91	
0	\$ 3.60	\$ 13.50	\$ 17.25	\$ 15.25	323.64
2,000	6.70	18.96	24.51	21.57	221.9
4,000	9.80	24.42	31.77	27.89	184.6
6,500 (average)	13.68	31.25	40.85	35.79	161.6
8,000	16.00	35.34	46.29	40.53	153.3
10,000	19.10	40.80	53.55	46.85	145.3
20,000	34.60	68.10	89.85	78.45	126.7
30,000	50.10	95.40	126.15	110.05	119.7

APPENDIX D

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LOS GUTLIOS WATER WORKS

ADOPTED QUANTITIES

Test Year 1989

Federal Tax Rate:	15%
State Tax Rate (\$600 Minimum):	9.3%
Local Franchise Rate:	0.0%

Expenses:

1. Purchased Power

Pacific Gas and Electric Co.	
Rate Schedule	A-1 (Single Phase)
Effective Date of Schedule	1/1/89
Kwh Used Total	6,945
Kwh Used - Summer	5,212
Kwh Used - Winter	1,733
\$/Kwh - Summer	0.10976
\$/Kwh - Winter	0.09024
Summer Charge	\$ 571
Winter Charge	156
Service Charge	60
Total Purchased Power	787

2. Purchased Water

None

3. Payroll

Employee Labor	\$ 106
Office Salaries	0
Management Salaries	980
Total Payroll	1,086
Payroll Taxes	148

4. Ad Valorem Taxes

Tax Rate	110
Assessed Value (imputed)	1.016%
	\$ 10,823

5. Water Testing (in professional services)

50

APPENDIX D
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LOS GUILICOS WATER WORKS

Service Connections

1. Metered

5/8 x 3/4-inch.....	0
3/4-inch.....	22
1-inch.....	0
1-1/2-inch.....	2
Total metered	24

2. Flat Rate

None

Metered Water Sales Used To Design Rates:

2,487 Ocf (1,860 kGal)

ADOPTED TAX CALCULATIONS
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 10,570	\$ 10,570
2.	Expenses	8,382	8,382
3.	Taxes Other Than Income	258	258
4.	Depreciation Expense	512	512
5.	Interest	0	0
6.	Taxable Income for State Tax	1,418	
7.	State Tax (@ 9.3%, \$81 minimum 1/)	132	132
8.	Taxable Income for FIT		1,286
9.	Federal Income Tax (@ 15%)		193
10.	Total Income Tax		325

1/ \$600x13.5%=\$81