

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3448
May 26, 1989

RESOLUTION

(RES. W-3448) SPLIT MOUNTAIN WATER COMPANY, (SMWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$8,677 OR 39.9% ADDITIONAL ANNUAL REVENUE.

SMWC, 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 \$9,280 or 42.5%. SMWC's request shows 1989 gross revenue of \$21,840 at present rates increasing to \$31,120 at proposed rates to produce a rate of return of 10.75% on rate base. SMWC serves 150 metered customers in the Wofford Heights area near Lake Isabella, Kern County.

The present rates became effective April 4, 1986 pursuant to Resolution W-3303 which authorized a general rate increase.

The Branch made an independent analysis of SMWC's summary of earnings. Appendix A presents SMWC'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 Branch's revenues at both present and proposed rates are slightly lower than SMWC's because the Branch had available to it later recorded customer and consumption information.

The differences in estimated operating expenses are in purchased power, contract work, other plant maintenance, uncollectibles, depreciation and income taxes.

The Branch's estimate of purchased power expense is higher than SMWC's because the Branch based its estimate on Southern California Edison Company's rates effective on February 1, 1989, while SMWC estimated its power expense using the lower rates in effect on February 1, 1988.

The Branch's estimate of \$18,100 for contract work is \$710 lower than SMWC's figure. The major portion of contract work is for payments to nearby Arden Water Company which provides labor, office, and management services under contract to operate and maintain the entire SMWC system. The Branch's lower

estimate for contract work is based on the payments Arden Water Company receives for its services as determined by the Commission in Resolution W-3432, dated February 24, 1989 in Arden's general rate case. SMWC's contract work estimate is based on costs projected before Resolution W-3432 was issued. The Branch also removed \$180 of plant additions labor which had been double-counted in contract work.

The Branch's \$330 estimate of other plant maintenance expense is based on current Contel of California, Inc. charges for leased circuits used for remote control of SMWC's pumps, whereas SMWC based its \$380 estimate on billings made before the present rates became effective.

The Branch's estimate for uncollectibles at proposed rates is slightly higher than SMWC's because the Branch based it on a percentage of revenues rather than assuming as SMWC did that uncollectibles would remain constant.

The Branch's \$2,810 estimate for depreciation expense is lower than SMWC's because the Branch based its estimate on a 2.6% depreciation rate while SMWC used a 3% rate. SMWC has been using the 2.6% rate since the beginning of 1988 but erroneously applied the higher rate in its estimate for this proceeding.

Both the Branch's and SMWC's income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1989. The variations are due to differences in the estimates of other items used to determine SMWC's taxable income.

The differences in rate base are due to differences in estimates for accumulated depreciation, advances, and working cash allowance.

The Branch's slightly lower estimate for accumulated depreciation is due to differences in the Branch's and SMWC's estimates of depreciation rate and expense as explained above.

The Branch and SMWC agree on the proper level of advances for construction at present rates, but SMWC has shown a lower balance at proposed rates because its advance repayments are based on a percentage of the associated revenues during the prior year. The Branch has shown the same advances for both present and proposed rates because SMWC's rates did not change during 1988.

In the course of its investigation of advances the Branch conducted a review of the manner in which funds were initially obtained to construct the water system and later to extend the system to serve new areas. Decision 76723 in 1970 granted SMWC its certificate and required that part (\$23,176) of the original 1969 system be funded by advances from the developer under SMWC's main extension rule and that the remainder be equity capital. Service to an additional tract was authorized by Decision 80626 in 1972 and SMWC showed the entire cost of extending service to this tract (\$52,960) as an advance from the developer. SMWC's main extension rule in effect when the advances were made required refunds at an annual rate of 22% of the previous year's gross

revenue derived from the area for which funds were advanced. The refunds were to be made for a period not exceeding 20 years. Because the utility and the developer were and are one and the same, no contracts were ever signed and no funds actually changed hands. However, the results of the Branch's review show that refunds have been recorded properly for the years through 1988, and that SMWC's accounting for advances has been consistent with the two decisions cited above and two subsequent rate increase resolutions, W-3171 in 1984 and W-3303 in 1986. Refunding for the two advances will cease after 1989 and 1992 when the time limits expire and, pursuant to the main extension rule, SMWC's books of account and annual reports filed with the Commission should show as contributions-in-aid-of-construction any unrefunded balances remaining after the refund periods have expired.

The Branch's working cash allowance is lower than SMWC's. The difference is due to the Branch's use of the revised simplified method for calculating working cash allowance adopted by the Commission on January 27, 1989, whereas SMWC applied the superseded method.

SMWC's proposed summary of earnings shown in Appendix A indicates a rate of return of 10.75% at requested rates. This is the midpoint of the 10.50% to 11.00% standard rate of return range recommended by Commission Advisory and Compliance Division for small, 100% equity financed water utilities.

SMWC 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 SMWC's proposed rate increase and public meeting was mailed to all customers on November 21, 1988. One letter was received protesting the magnitude of the increase. When the investigation was completed the Branch wrote a reply explaining its findings and why it is recommending an increase.

On December 5, 1988 an informal public meeting was held in Kernville, adjacent to the service area. A Branch engineer conducted the meeting and SMWC's contract manager answered questions. Twenty-one customers attended the meeting and asked questions related to the amount of the proposed increase and to water outages in the past.

Branch engineers conducted a field inspection of SMWC's service area and plant facilities on December 5, 1988. They checked visible portions of the system and methods of operation, audited utility records, and spoke with customers. Their inspection showed that the water system has been reasonably maintained and that, at the time of the inspection, water service was satisfactory and water pressures met the requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." It was noted, however, that there were no production meters on SMWC's wells to record the quantity of water produced by each source as required by G.O. 103. The Branch recommends that SMWC be ordered to install production meters and that it be authorized to file an advice letter to begin recovering their reasonable costs when they have been placed in service.

According to the Kern County Department of Public Health, Division of Environmental Health, SMWC's water meets state quality standards. There are no outstanding Commission orders requiring system improvements.

In 1981 the Commission imposed a connection moratorium because of problems with SMWC's supply, storage and distribution facilities. The moratorium was lifted in 1988 by Decision 88-06-054 following significant system improvements including a standby interconnection with adjacent Arden Water Company. During the past three years SMWC has installed meters on all service connections and has made an extensive effort to educate customers in water conservation. Consumption has since decreased significantly. The Branch believes that these measures, along with the conversion to rates more conducive to conservation, will allow SMWC to meet its customers' future needs and that further conservation orders are unnecessary at this time.

SMWC's rates consist of a metered service schedule and a residential flat rate schedule. There are no customers served under the flat rate schedule and SMWC desires to withdraw it; the Branch concurs. SMWC's present metered schedule has a minimum charge and two declining-rate blocks for usage over the minimum. The Branch's recommended metered rate schedule includes a service charge which would recover revenue equivalent to 50% of SMWC's fixed expenses 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 permits 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 \$8,677 or 39.9%. This increase provides a 10.75% rate of return on rate base for test year 1989.

At the Branch's recommended rates shown in Appendix B, the bill for a typical customer using the system average of 1,300 cubic feet of water per month would increase from \$10.68 to \$16.59. 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. SMWC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining production at each source of supply. SMWC 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 Split Mountain 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 Schedules 1 and 2R. Its filing shall comply with General Order 96-A. The effective date of the new schedule shall be the date of filing.

2. Split Mountain Water Company shall install suitable measuring devices to determine water production at each source of supply within one year of the effective date of this order. Split Mountain Water Company is authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been completed and 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 May 26, 1989. The following commissioners approved it:

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


VICTOR R. WEISSER
Executive Director



APPENDIX A

SPLIT MOUNTAIN 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>					
Metered	\$ 21,840	\$ 31,120	\$ 21,730	\$ 30,770	\$ 30,407
Flat Rate	0	0	0	0	0
Total Revenue	21,840	31,120	21,730	30,770	30,407
<u>Operating Expenses</u>					
Purchased Power	5,640	5,640	6,200	6,200	6,200
Other Volume Related	0	0	0	0	0
Employee Labor	0	0	0	0	0
Materials	140	140	140	140	140
Contract Work	18,810	18,810	18,100	18,100	18,100
Other Plant Maint.	380	380	330	330	330
Office Salaries	0	0	0	0	0
Management Salaries	0	0	0	0	0
Transportation	0	0	0	0	0
Uncollectibles	70	70	70	90	90
Office Serv. & Rent	0	0	0	0	0
Office Supplies	30	30	30	30	30
Professional Services	0	0	0	0	0
Insurance	0	0	0	0	0
General Expense	0	0	0	0	0
Reg. Comm. Expense	0	0	0	0	0
Subtotal	25,070	25,070	24,870	24,890	24,890
Depreciation Exp.	3,170	3,170	2,810	2,810	2,810
Property Tax	420	420	420	420	420
Payroll Tax	0	0	0	0	0
Income Taxes	300	620	600	910	853
Total Deductions	28,960	29,280	28,700	29,030	28,973
Net Revenue	(7,120)	1,840	(6,970)	1,740	1,434
<u>Rate Base</u>					
Average Plant	112,020	112,020	112,020	112,020	112,020
Avg. Accum. Deprac.	49,410	49,410	48,890	48,890	48,890
Net Plant	62,610	62,610	63,130	63,130	63,130
Less: Advances	51,940	51,170	51,940	51,940	51,940
Contributions	0	0	0	0	0
Plus: Working Cash	5,680	5,680	2,160	2,140	2,150
Mat'l & Supplies	0	0	0	0	0
Rate Base	16,350	17,120	13,350	13,330	13,340
Rate of Return	(Loss)	10.75%	(Loss)	13.05%	10.75%

APPENDIX B

SPLIT MOUNTAIN WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tracts Nos. 3141, 3491 and along Evans Road between those tracts, located near Wofford Heights, Kern County. (T)
(T)

RATES

Quantity Rate: (T)

All water, per 100 cu.ft. \$0.78 (I)

Service Charge: (C)
Per Meter Per Month (L)

For 5/8 x 3/4-inch meter	6.45	(R)
For 3/4-inch meter	7.10	
For 1-inch meter	9.70	
For 1-1/2-inch meter	12.90	
For 2-inch meter	17.40	(R)

The Service Charge is a readiness-to-serve charge (T)
which is applicable to all metered service and to
which is to be added the monthly charge for water
used computed at the Quantity Rate. (T)

APPENDIX C

SPLIT MOUNTAIN WATER COMPANY

COMPARISON OF RATESMetered Rate Service

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

Quantity Rates:

First 900 cu.ft. or less	\$ 8.70
Next 3,100 cu.ft., per 100 cu.ft.	0.495
Over 4,000 cu.ft., per 100 cu.ft.	0.263

All water, per 100 cu.ft.	\$ 0.78
--------------------------------	---------

Minimum Charge/Service Charge:

	<u>Minimum</u>	<u>Service</u>
	<u>Charge</u>	<u>Charge</u>
For 5/8 x 3/4-inch meter	\$ 8.70	\$ 6.45
For 3/4-inch meter	11.25	7.10
For 1-inch meter	16.20	9.70
For 1 1/2-inch meter	27.70	12.90
For 2-inch meter	35.90	17.40

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

<u>Monthly</u>	<u>Present</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
<u>Usage</u>	<u>Bills</u>	<u>Bills</u>	<u>Increase</u>	<u>Increase</u>
<u>100 cu.ft.</u>				
0	\$ 8.70	\$ 6.45	\$(2.25)	(25.9)%
3	8.70	8.79	0.09	1.0
5	8.70	10.35	1.65	19.0
9	8.70	13.47	4.77	54.8
13 (average)	10.68	16.59	5.91	55.3
20	14.15	22.05	7.90	55.8
30	19.10	29.85	10.75	56.3
40	24.05	37.65	13.60	56.6
50	26.68	45.45	18.77	70.4

APPENDIX D
Page 1

SPLIT MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

Federal Tax Rate:	15%
State Tax Rate (\$600 minimum):	9.3%
Uncollectible Rate:	0.3%

Expenses:

1. Purchased Power

Southern California Edison Co.

Rate Schedule	PA-1
Effective Date of Schedule	2/1/89
Kwh	60,720
\$/Kwh	0.08862
Energy Cost	\$ 5,381
Service Charge	257
Customer Charge	562
Total	6,200

2. Purchased Water

None

3. Pump Tax - Replenishment Tax

None

4. Payroll

None

5. Ad Valorem Taxes

\$ 420

Tax Rate

1%

Assessed Value

\$ 42,000

6. Water Testing (in contract work)

1,068

APPENDIX D
Page 2

SPLIT MOUNTAIN WATER COMPANY

Service Connections:

Metered		
5/8 X 3/4-inch	147	
3/4-inch	1	
1-inch	2	
Total	150	

Metered Water Sales Used To Design Rates (Ccf): 23,845

ADOPTED TAX CALCULATIONS
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 30,407	\$ 30,407
2.	Expenses	24,890	24,890
3.	Taxes Other Than Income	420	420
4.	Depreciation Expense	2,810	2,810
5.	Interest Expense	0	0
6.	Taxable Income for State Tax	2,287	
7.	State Tax (\$600 minimum)	600	600
8.	Taxable Income for FIT		1,687
9.	Federal Income Tax (@ 15%)		253
10.	Total Income Tax		853

(END OF APPENDIX D)