

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3450  
June 21, 1989

RESOLUTION

(RES. W-3450) CENTRAL VALLEY WATER COMPANY, (CVWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$6,969 OR 68.4% ADDITIONAL ANNUAL REVENUE.

CVWC, by letter to the Water Utilities Branch (Branch) dated January 5, 1989, 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 \$8,136 or 80.0%. CVWC had earlier submitted a draft advice letter for a lesser increase, but subsequently revised and resubmitted its request and notified its customers. CVWC shows 1989 gross revenue of \$10,184 at present rates increasing to \$18,320 at proposed rates to produce a rate of return of 10.65% on rate base. CVWC and Tulare County Water Company are small water utilities under common ownership and operation serving a total of 655 customers in Tulare County. Both companies have requested general rate increases. CVWC serves 90 flat rate customers adjacent to the City of Dinuba, Tulare County.

The present flat rates became effective June 15, 1982 pursuant to Resolution W-2989 which authorized an offset rate increase for the additional cost of purchased power. CVWC's last general rate increase was authorized by Resolution W-1725 and became effective May 1, 1975.

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

The differences in estimated operating expenses are in purchased power, management salaries, transportation, uncollectibles, office supplies and expenses, depreciation, payroll taxes and income taxes.

The Branch's estimate of purchased power expense is higher than CVWC's because the Branch based its figure on more recent recorded data for energy consumed and on Pacific Gas and Electric Company's later rates effective March 22, 1989.

The Branch's \$4,740 figure for management salaries includes the requested salaries for three resident owner-managers. The estimate is lower than CVWC's \$5,520 because the Branch deleted the payroll costs of another three

part owners of the company, of whom two have not been employed previously and the third is not active in water company operations.

The Branch's estimate for transportation expense is lower than CVWC's because of differences in the allocation methods used by the Branch and CVWC to divide expenses between CVWC and its affiliate, Tulare County Water Company. The Branch agrees with the utilities' total transportation expense.

The Branch's uncollectibles estimate is lower than CVWC's because the Branch based its estimate on the average uncollectible rate of eight other small flat rate water utilities operating in the area. CVWC's figure is four times higher than this average. CVWC could achieve a lower level if it were to improve its handling of customer accounts by taking applications from new customers, requiring customers to establish or re-establish credit pursuant to its tariff rules, making a greater effort in collecting past due accounts, and making it more convenient for customers to make payments, such as providing return envelopes and publicizing the location and hours of its public office.

The Branch has included an additional \$178 allowance in its office supplies and expense estimate to provide for increased costs of mailing bills and providing return envelopes in an effort to reduce uncollectibles.

The Branch's depreciation expense figure is lower than CVWC's because the Branch deleted the cost of adding production meters during the test year as explained under plant in service below.

The Branch's estimate for payroll taxes is lower than CVWC's because of the Branch's lower estimate of salaries.

Both the Branch's and CVWC's income taxes reflect current rates under the federal Tax Reform Act of 1986 and the corresponding state rates for 1989.

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

The differences in plant in service and accumulated depreciation are due to the Branch's having removed the cost of installing production meters at CVWC's well sites during the test year. The Branch recommends that CVWC be ordered to install the production meters and be authorized to file an advice letter to recover their reasonable cost in rates when they are in and working.

CVWC based its 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 allowance procedure approved by the Commission on January 27, 1989 which replaced U-16's simplified method. The purpose of a working cash allowance is to pay a return to utility owners for funds invested to meet expenses before receipt of the corresponding revenues. CVWC bills its customers bimonthly in advance and thus does not need an allowance for working cash.

CVWC's proposed summary of earnings shown in Appendix A indicates a rate of return of 10.65% at requested rates. The Branch recommends a rate of return of 10.75%; 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.

CVWC 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 CVWC's proposed rate increase and public meeting was mailed to all customers on October 3, 1988. After CVWC resubmitted its request, a second notice was mailed on March 13, 1989. No responses were received.

On October 31, 1988, and again on March 28, 1989, a Branch engineer and CVWC's management personnel were available for a public meeting in Visalia to answer customer questions and explain the rate increase process. No CVWC customers attended either meeting.

Branch engineers conducted a field inspection of CVWC's service area and plant facilities on October 31 and November 1, 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, water service is 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 the sources of supply to record the quantity of water produced as required by G.O. 103. CVWC included the cost of installing production meters in its revised advice letter request. It was also noted that weed growth was well established at the well site. A program of weed control is needed to maintain the supply system free of sanitary defects and reduce potential fire hazards.

During the inspection, the Branch engineer found that CVWC is providing service under its residential flat rate service schedule to an elementary school and church located on North Alta Avenue in Dinuba. This customer should be converted to general metered service as provided for in CVWC's tariff schedules.

It was also discovered during the field inspection that CVWC is serving customers outside of its filed service area, which is presently stated as Tract 406 and vicinity, Tulare County. CVWC should correct and refile its tariff sheets and service area map to reflect the area actually served.

According to the Tulare County Department of Health Services, CVWC's water presently meets all state quality standards. There are no outstanding Commission orders requiring system improvements.

The water levels in CVWC's deep well sources have remained relatively constant over the past two years despite California's current drought. Although CVWC has no plans to meter its residential customers, the Branch recommends that tariff Schedule No. 2R, Residential Flat Rate Service, be amended to clarify its authority to do so. No other conservation measures are needed at this time.

Because CVWC failed to maintain a balancing account after being granted a power offset rate increase in 1982, the Branch reconstructed entries from its June 15, 1982 offset increase (Resolution W-2989) through December 31, 1988. It was determined that the balancing account is not over-collected and amortizing the balance is not necessary. The Branch has instructed CVWC's new owners in the procedures for maintaining the account and believes they will now comply with the Commission's balancing account requirements.

CVWC's rates consist of a residential flat-rate service schedule and a general metered service schedule. All service is presently provided under the flat rate schedule. The Branch recommends that the flat rate schedule be increased by the system average increase, and that the metered rate schedule be revised to reflect the Commission's metered rate design policy established by Decision 86-05-064. The resulting metered schedule has service charges which would recover revenue proportional to 50% of CVWC's fixed costs and a single metered quantity rate, and would charge approximately the same amount as the flat rate schedule for a customer who uses the system average of 17 Ccf (one Ccf is one-hundred cubic feet) per month.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$6,969 or 68.4%. 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 residential flat rate customer would increase from \$8.70 to \$14.45. 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. CVWC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining production at each source of supply. CVWC 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. CVWC should undertake an effective weed control program at its well site so as to maintain the area surrounding its pumps and storage tank free of vegetation.
6. CVWC should conform to its tariffs by converting non-residential customers from Schedule 2R, Residential Flat Rate Service, to Schedule 1, General Metered Service.

7. Concurrently with the filing of increased rates, CVWC should file revised tariff sheets and service area map to reflect the area actually being served.
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 Central Valley Water Company 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 Schedules 1 and 2R. The effective date of the new schedules shall be the date of filing.
2. Central Valley Water Company shall include with the filing authorized in Ordering Paragraph 1 above a revised title sheet, preliminary statement, and service area map reflecting the area in which service is presently being provided.
3. Central Valley Water Company shall install suitable measuring devices to determine production at each source of supply within one year of the effective date of this order. Central Valley 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.
4. Central Valley Water Company shall undertake an effective weed control program at its well site so as to maintain the area surrounding its pumps and storage tank free of vegetation.
5. Central Valley Water Company shall conform to its tariffs by converting non-residential customers from Schedule 2R, Residential Flat Rate Service, to Schedule 1, General Metered Service.
6. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 21, 1989. The following commissioners approved it:

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

  
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VICTOR R. WEISSER  
Executive Director

## APPENDIX A

## CENTRAL VALLEY 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	\$ 10,184	\$ 18,320	\$ 10,184	\$ 18,320	\$ 17,153
Metered	0	0	0	0	0
Total Revenue	10,184	18,320	10,184	18,320	17,153
<u>Operating Expenses</u>					
Purchased Power	2,772	2,772	3,299	3,299	3,299
Other Volume Related	400	400	400	400	400
Employee Labor	0	0	0	0	0
Materials	70	70	70	70	70
Contract Work	2,336	2,336	2,336	2,336	2,336
Office Salaries	0	0	0	0	0
Management Salaries	5,520	5,520	4,740	4,740	4,740
Transportation	1,270	1,270	920	920	920
Uncollectibles	550	550	150	150	150
Office Serv. & Rent	354	354	354	354	354
Office Supplies	442	442	620	620	620
Professional Services	341	341	341	341	341
Insurance	1,115	1,115	1,115	1,115	1,115
General Expense	0	0	0	0	0
Reg. Comm. Expense	0	0	0	0	0
Subtotal	15,170	15,170	14,345	14,345	14,345
Depreciation Exp.	490	490	461	461	461
Property Tax	325	325	325	325	325
Payroll Tax	570	570	480	480	480
Income Taxes	80	404	80	620	353
Total Deductions	16,635	16,959	15,691	16,231	15,964
Net Revenue	( 6,451)	1,361	( 5,507)	2,089	1,189
<u>Rate Base</u>					
Average Plant	22,596	22,596	21,455	21,455	21,455
Avg. Accum. Deprec.	10,405	10,405	10,391	10,391	10,391
Net Plant	12,191	12,191	11,064	11,064	11,064
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	593	593	0	0	0
Mat'l & Supplies	0	0	0	0	0
Rate Base	12,784	12,784	11,064	11,064	11,064
Rate of Return	(Loss)	10.65%	(Loss)	18.88%	10.75%

APPENDIX B  
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CENTRAL VALLEY WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tract 406 and vicinity located adjacent to the City of Dinuba, Tulare County.

(T)  
(T)

RATES

Quantity Rate:

All Water, per 100 cu.ft. ....	\$0.50	(I)
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Service Charge:

	<u>Per Meter</u>	(C)
	<u>Per Month</u>	(C)
For 5/8 x 3/4-inch meter .....	6.00	(I)
For 3/4-inch meter .....	6.60	
For 1-inch meter .....	9.00	(I)
For 1-1/2-inch meter .....	12.00	
For 2-inch meter .....	16.20	(R)

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)

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CENTRAL VALLEY WATER COMPANY

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The area known as Tract 406 and vicinity located adjacent to the City of Dinuba, Tulare County.

(T)  
(T)

RATES

Per Service Connection  
Per Month

For a single family residential unit, including premises not exceeding 8,000 sq. ft. in area .....	\$ 14.45	(I)
For each additional unit on the same premises .....	8.45	(I)
a. For each 100 sq. ft. of premises in excess of 8,000 sq. ft. ....	0.09	(I)

SPECIAL CONDITIONS

1. The above residential flat rates apply to service connections not larger than one (1) inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis. (N)  
(N)
3. A meter may be installed at the option of the utility in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. (T)  
|  
(T)



APPENDIX C  
CENTRAL VALLEY WATER COMPANY  
COMPARISON OF RATES

A comparison of present rates with rates recommended by the Branch is shown below:

Residential Flat Rate Service:

	<u>Per Service Connection</u> <u>Present</u> <u>Rates</u>	<u>Adopted</u> <u>Rates</u>	<u>Per Month</u> <u>Percent</u> <u>Increase</u>
For a single family residential unit, including premises not exceeding 8,000 sq. ft. in area .....	\$ 8.70	\$ 14.45	66.1%
For each additional unit on the same premises .....	5.00	8.45	69.0
For each 100 sq. ft. in excess of 8,000 sq. ft. ....	0.05	0.09	80.0

General Metered Rate Service:

The utility presently has no metered rate customers. The metered rate schedule has been designed to be equivalent to the flat rate schedule for a customer who uses approximately the system average of 17 Ccf per month.

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## CENTRAL VALLEY WATER COMPANY

ADOPTED QUANTITIES  
Test Year 1989

Federal Tax Rate:	15%
State Tax Rate:	9.3%
Uncollectible Rate:	0.85%

Expenses:

## 1. Purchased Power

Pacific Gas and Electric Company	
Rate Schedule	A-1
Effective Date of Schedule	3/22/89
kwh Used Total	31,881
kwh Used - Summer	17,768
kwh Used - Winter	14,113
\$/kwh - Summer	0.10976
\$/kwh - Winter	0.09024
Summer Charge	\$ 1,950
Winter Charge	1,274
Service Charge	0
Customer Charge	75
Total Purchased Power	\$ 3,299

2. Purchased Water	None
3. Pump Tax - Replenishment Tax	None
4. Payroll	\$ 4,740
5. Ad Valorem Taxes	\$ 325
Effective Tax Rate	1.01089%
Assessed Value	\$ 32,132
6. Water Testing (in contract work)	1,891

## APPENDIX D

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## CENTRAL VALLEY WATER COMPANY

Service Connections:

Flat Rate		
Residential .....		90
Additional Residential Units .....		0
Units of excess 100 sq.ft. each month .....		1,452

ADOPTED TAX CALCULATIONS

1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 17,153	\$ 17,153
2.	Expenses	14,345	14,345
3.	Taxes Other Than Income	805	805
4.	Depreciation Expense	461	461
5.	Interest	0	0
6.	Taxable Income for State Tax	1,542	
7.	State Tax (@ 9.3%)	143	143
8.	Taxable Income for FIT		1,399
9.	Federal Income Tax (@ 15%)		210
10.	Total Income Tax		353

(END OF APPENDIX D)