

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3451
June 21, 1989

R E S O L U T I O N

(RES. W-3451) TULARE COUNTY WATER COMPANY, (TCWC),
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$33,723 OR 53.2% ADDITIONAL ANNUAL REVENUE.

TCWC, 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 \$38,646 or 61.0%. TCWC had earlier submitted a draft advice letter for a lesser increase, but subsequently revised and resubmitted its request and renotified its customers. TCWC shows 1989 gross revenue of \$63,393 at present rates increasing to \$102,039 at proposed rates to produce a rate of return of 10.53% on rate base. TCWC and Central Valley 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. TCWC serves 565 flat rate customers in the cities of Tulare and Visalia and adjacent unincorporated areas, Tulare County.

The present flat rates became effective July 7, 1982 pursuant to Resolution W-3003 which authorized an offset rate increase for the additional cost of purchased power. TCWC's last general rate increase was authorized by Resolution W-2308 and became effective January 15, 1978.

The Branch made an independent analysis of TCWC's summary of earnings. Appendix A shows TCWC's and the Branch's estimated summary of earnings at present, requested and adopted rates for test year 1989. Appendix A shows differences in 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 expense for power is higher than TCWC's because the Branch based its estimate on more recent energy use data and on Southern California Edison Company's rates effective on February 1, 1989, while TCWC estimated its power expense using the lower rates in effect on October 1, 1988.

The Branch's \$29,790 figure for management salaries includes the requested salaries for three resident owner-managers. The estimate is lower than TCWC's \$33,730 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 higher than TCWC's because of differences in the allocation methods used by the Branch and TCWC to divide expenses between TCWC and its affiliate, Central Valley Water Company. The Branch agrees with the utilities' total transportation expense.

The Branch's uncollectibles estimate is lower than TCWC's because the Branch based its estimate on the average uncollectible rate of eight other small flat rate water utilities operating in the area. TCWC's figure is four times higher than this average. TCWC 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 \$1,122 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 TCWC'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 TCWC's because of the Branch's lower estimate of salaries.

Both the Branch's and TCWC'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 TCWC's well sites during the test year. The Branch recommends that TCWC 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.

TCWC 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. TCWC bills its customers monthly in advance and thus does not need an allowance for working cash.

TCWC's proposed summary of earnings shown in Appendix A indicates a rate of return of 10.53% 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.

TCWC 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 TCWC's proposed rate increase and public meeting was mailed to all customers on October 3, 1988. After TCWC resubmitted its request, a second notice was mailed on March 13, 1989. One letter was received protesting the magnitude of the increase. When the Branch investigation was completed, the Branch wrote a reply explaining its findings and why it is recommending an increase.

On October 31, 1988, the first informal public meeting was held in Visalia. A Branch engineer conducted the meeting and TCWC's management personnel answered questions from the one customer who attended. On March 28, 1989, a second meeting was held at the same location. Eighteen customers attended and asked questions concerning the amount of the proposed increase, and weed growth at the well sites.

Branch engineers conducted a field inspection of TCWC'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. TCWC included the cost of installing production meters in its revised advice letter request. It was also noted that weed growth was well established at its well sites. A program of weed control is needed to maintain the supply system free of sanitary defects and reduce potential fire hazards.

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

The water levels in TCWC's deep well sources have remained relatively constant over the past two years despite California's current drought. Although TCWC 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 TCWC has failed to maintain a balancing account after being granted two power offset rate increases, the Branch reconstructed entries from its first offset rate increase on November 4, 1980 (Resolution W-2737) 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 TCWC's new owners in the procedures for maintaining the account and believes they will now comply with the Commission's balancing account requirements.

TCWC'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 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 TCWC'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 \$33,723 or 53.2%. 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 \$9.35 to \$14.35. 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. TCWC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining production at each source of supply. TCWC 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. TCWC should undertake an effective weed control program at its well sites so as to maintain the area surrounding its pumps and storage tanks free of vegetation.
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 Tulare County 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. Tulare County 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. Tulare County 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. Tulare County Water Company shall undertake an effective weed control program at its well sites so as to maintain the area surrounding its pumps and storage tanks free of vegetation.
4. 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



VICTOR R. WELSER
Executive Director

APPENDIX A

TULARE COUNTY 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	\$ 63,393	\$ 102,039	\$ 63,393	\$102,039	\$ 97,116
Metered	0	0	0	0	0
Total Revenue	63,393	102,039	63,393	102,039	97,116
<u>Operating Expenses</u>					
Purchased Power	18,352	18,352	19,413	19,413	19,413
Other Volume Related	3,000	3,000	3,000	3,000	3,000
Employee Labor	0	0	0	0	0
Materials	610	610	610	610	610
Contract Work	9,528	9,528	9,528	9,528	9,528
Office Salaries	0	0	0	0	0
Management Salaries	33,730	33,730	29,790	29,790	29,790
Transportation	3,453	3,453	3,800	3,800	3,800
Other Plant Maint.	189	189	189	189	189
Uncollectibles	3,061	3,061	830	830	830
Office Serv. & Rent	2,166	2,166	2,166	2,166	2,166
Office Supplies	2,698	2,698	3,820	3,820	3,820
Professional Services	341	341	341	341	341
Insurance	6,815	6,815	6,815	6,815	6,815
General Expense	0	0	0	0	0
Reg. Comm. Expense	0	0	0	0	0
Subtotal	83,943	83,943	80,302	80,302	80,302
Depreciation Exp.	3,338	3,338	3,238	3,238	3,238
Property Tax	1,985	1,985	1,985	1,985	1,985
Payroll Tax	3,484	3,484	3,020	3,020	3,020
Income Taxes	520	2,128	520	3,091	1,963
Total Deductions	93,270	94,878	89,065	91,636	90,508
Net Revenue	(29,877)	7,161	(25,672)	10,403	6,608
<u>Rate Base</u>					
Average Plant	143,657	143,657	139,663	139,663	139,663
Avg. Accum. Deprec.	78,241	78,241	78,191	78,191	78,191
Net Plant	65,416	65,416	61,472	61,472	61,472
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	2,605	2,605	0	0	0
Mat'l & Supplies	0	0	0	0	0
Rate Base	68,021	68,021	61,472	61,472	61,472
Rate of Return	(Loss)	10.53%	(Loss)	16.92%	10.75%

APPENDIX B
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TULARE COUNTY WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 344, Tract No. 366, Tract No. 380, Tract No. 381 and vicinity, located adjacent to City of Tulare, and Tract No. 345 and vicinity, located approximately one-quarter mile south of Visalia, Tulare County.

RATES

Quantity Rate:		(T)
All Water, per 100 cu. ft.	\$0.50	(I)

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

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

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TULARE COUNTY WATER COMPANY

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Tract No. 344, Tract No. 366, Tract No. 380, Tract No. 381 and vicinity, located adjacent to City of Tulare, and Tract No. 345 and vicinity, located approximately one-quarter mile south of Visalia, Tulare County. (T)
(T)

RATES

Quantity Rates:	<u>Per Service Connection Per Month</u>	
For a single family residential unit, including premises not exceeding 8,500 sq. ft. in area	\$ 14.35	(I)
For each 100 sq. ft. of premises in excess of 8,500 sq. ft.	0.08	(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.
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

TULARE COUNTY 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</u>	<u>Connection</u>	<u>Per Month</u>
	<u>Present</u>	<u>Adopted</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For a single family residential unit, including premises	\$ 9.35	\$14.35	53.5%

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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TULARE COUNTY WATER COMPANY

ADOPTED QUANTITIES
Test Year 1989

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

Expenses:

1. Purchased Power

Southern California Edison Company	
Rate Schedule	PA-1
Effective Date of Schedule	2/1/89
kWh Used	193,050
\$/kWh	0.08862
Charge	\$ 17,108
Service Charge	1,782
Customer Charge	523
Total Purchased Power	\$ 19,413

2. Purchased Water	None
3. Pump Tax - Replenishment Tax	None
4. Payroll	\$ 29,790
5. Ad Valorem Taxes	\$ 1,985
Effective Tax Rate	1.06638%
Assessed Value	\$186,143
6. Water Testing (in contract work)	7,140

APPENDIX D
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TULARE COUNTY WATER COMPANY

Service Connections:

Flat Rate	
Residential	565
Additional Residential Units	0
Units of excess 100 sq.ft.	0

ADOPTED TAX CALCULATIONS
1989 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 97,116	\$ 97,116
2.	Expenses	80,302	80,302
3.	Taxes Other Than Income	5,005	5,005
4.	Depreciation Expense	3,238	3,238
5.	Interest	0	0
6.	Taxable Income for State Tax	8,571	
7.	State Tax (@ 9.3%)	797	797
8.	Taxable Income for FIT		7,774
9.	Federal Income Tax (@ 15%)		1,166
10.	Total Income Tax		1,963

(END OF APPENDIX D)