

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3471  
November 3, 1989

## R E S O L U T I O N

(RES. W-3471) SPRECKELS WATER COMPANY, (SWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$27,525 OR 59.0% ADDITIONAL ANNUAL REVENUE.

SWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on April 12, 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 \$51,694 or 108%. SWC's request shows 1989 gross revenue of \$47,986 at present rates increasing to \$99,680 at proposed rates to produce a rate of return of 27.62%. SWC serves 209 flat rate and 3 metered customers in Spreckels, Monterey County.

The present rates became effective November 6, 1985 pursuant to Resolution W-3288 which authorized a general rate increase producing \$16,770 or 61.4% additional annual revenue.

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

The Branch's estimate of revenue is lower than SWC's. SWC estimated that one its business customers would expand its operations and pay a higher flat rate. This customer later decided not to expand his business. Another company which was taking service at a flat rate went out of business at an earlier date than anticipated by SWC. This company had a private fire service connection, thus the revenues from private fire protection were also reduced. The main reason for differences in revenues is because Branch had access to later recorded information when making its estimate and it excluded the 1.5 % PUC surcharge which is not considered for rate making. SWC inadvertently included the surcharge in its estimates. SWC's parent, Spreckels Sugar Company, pays for local fire protection.

The difference in estimates for operating expenses are in purchased power, materials, contract work, transportation, office supplies and expenses, general expenses, depreciation expense, property tax, local franchise tax, and income taxes.

The Branch's \$11,720 estimate of purchased power is higher than SWC's corresponding estimate of \$10,967. The Branch's estimate was based upon the actual average electrical usage per customer for the recorded period of 1987 and 1988. SWC provided no explanation for its estimate.

The Branch's \$1,120 estimate for materials is considerably lower than SWC's corresponding estimate of \$10,080. The Branch examined SWC's records and determined that the majority of the amounts charged to this account should have been capitalized and only a small amount expensed. The Branch's estimate is based upon actual 1988 expenses adjusted for both capitalized and expensed portion of the expenditures. The adjusted estimate then was escalated for inflation. The escalation factors used by the Branch for this and other accounts were those provided by the Advisory Branch of the Commission Advisory and Compliance Division. SWC's estimate was based upon its recorded account balance escalated for the test year.

The Branch's estimate for contract work of \$23,830 is lower than SWC's \$29,583. The Branch's estimate is based upon actual 1988 charges adjusted for capitalized plant expenditures. The adjusted estimate was then escalated for inflation. The Branch has included the capitalized portion of this account in its estimate of plant in service. SWC's estimate was based on its actual account balance projected for the test year. SWC's estimate did not take any capitalized expenses into consideration.

The Branch's estimate of \$9,850 for transportation is higher than SWC's \$8,726. The Branch's estimate is based upon recorded 1988 charges and escalated for inflation. SWC's estimate was based upon its actual account balance projected to yearly expense. SWC's estimate inexplicably did not include the expenses associated with SWC's manager's car expenses.

The Branch's estimate for office supplies and expenses of \$290 is slightly higher than SWC's \$268. The Branch's estimate is based on actual account balances in 1987 and 1988 adjusted to reflect the 1989 customer base. The main reason for this slight difference is because Branch had access to later information when it prepared its estimate.

The Branch's estimate for general expense of \$0 is lower than SWC's \$960. SWC inadvertently included its 1.5% FUC rate surcharge as both a revenue and an expense item. The Branch's estimate has eliminated both the revenue and expense components of this item from its summary of earnings.

The Branch's estimate of \$1,060 for property taxes is slightly lower than SWC's \$1,100. The Branch's estimate is based upon the 1988-1989 tax bill escalated by 2% in accordance with the provisions of Proposition 13.

The Branch's estimate for franchise tax is higher than SWC's. SWC pays franchise tax to local governmental authorities. This tax is based on gross revenues. The Branch's computation of franchise taxes is based on the present, proposed and adopted revenues, whereas SWC's estimates were all based upon present rate revenues. SWC also made a mathematical error in its calculations yielding a lower estimate.

The Branch's estimates for income taxes are higher than SWC's at present, proposed, and adopted rates. SWC estimated \$200 of income taxes at both present and proposed rates for the test year. The Branch's income tax estimate reflects current tax rates under the Federal Tax Reform Act of 1986 and the corresponding state tax rate for 1989.

The difference between SWC and the Branch in rate base estimates is due to differences in average utility plant, average depreciation reserve, and working cash allowance.

The Branch's estimate of \$183,480 for the average utility plant is higher than SWC's estimate of \$171,447. The Branch's estimate reflects the capitalized items the Branch eliminated from SWC's expense estimate, as discussed above. The Branch notes that SWC has not capitalized any items since its last rate case in 1985.

The Branch's estimate of average depreciation reserve is slightly higher than SWC's. The Branch's estimate is based upon a straight-line remaining life depreciation rate of 3.0%, which is the same rate SWC used in its estimate and is the rate recorded in its annual reports. The Branch's estimate reflects a higher estimate of plant in service due to the capitalized amounts excluded from the expense accounts.

The Branch's estimate of working cash allowance is higher than SWC. The Branch estimated working cash allowance by using the revised simplified working cash allowance procedure adopted by the Commission on January 27, 1989.

SWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 27.62%. 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 the Accounting and Financial Branch of the Commission Advisory and Compliance Division for small, 100% equity financed water utilities.

SWC 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 the proposed rate increase and public meeting was mailed to each customer on April 12, 1989. One letter of protest was received stating that the increase should be a result of inflation and be nominal in nature. There were no service complaints.

On May 3, 1989, an informal public meeting attended by approximately 28 customers was held in the SWC service area. A Branch representative conducted the meeting and representatives of SWC were there to answer questions. Most of the customers complained about the magnitude of the proposed rate increase. There were no complaints regarding water quality.

Branch engineers conducted a field investigation on March 20 and 21, 1989. Visible portions of the system were inspected and company records researched. The investigation indicated that service is satisfactory and that SWC's system is in compliance with the requirements of the Commission's General Order 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction."

SWC has not conducted a pump efficiency test since 1982 on its well Number 2. SWC's manager has assured the Branch that a pump test would be requested shortly. Pump efficiency tests help the utility to determine the proper schedule for maintaining and overhauling their pumps. This increases the general efficiency of the water system. The Branch will investigate to make sure the pump efficiency test is properly conducted.

There are no outstanding Commission orders requiring system improvements. According to the State Department of Health Services, SWC's water meets all primary and secondary drinking water standards currently in effect.

SWC currently has no conservation program. It receives its water from two wells and has no water supply problems. The Branch does not recommend a conservation program at this time.

SWC's current rates consist of a metered service rate schedule; flat rate service schedule; private fire protection schedule; and a public fire hydrant service schedule. The Branch proposes to increase each category by approximately the system overall average increase.

The Commission's metered rate design policy for water utilities established by D.86-05-064 specifies that up to 50% of a water utility's fixed expenses should be recovered through the metered service charges. The Branch's recommended metered rate schedule includes a service charge which would recover revenue in proportion to 50% of SWC's fixed expense, and a single metered quantity rate.

In designing service charges for various meter sizes, the Branch used the standard ratios contained in the Commission's Standard Practice U-25, "Guide for Adjusting and Estimating Operating Revenues of Water Utilities." SWC currently has rates which slightly differ from the standard ratios.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$27,525 or 59.0%. This increase provides a 10.75% 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 residential flat rate customer would increase from \$11.70 to \$18.60 per month (59.0%). A comparison of 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 adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. 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 Spreckels 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 No. 1, 2, 4, and 5. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedules shall be the date of filing.

2. This resolution is effective today.

I hereby certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 3, 1989. The following commissioners approved it:

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

*Wesley Franklin*

WESLEY FRANKLIN  
Acting Executive Director

## APPENDIX A

SPRECKELS WATER COMPANY  
SUMMARY OF EARNINGS  
Test Year 1989

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>Operating Revenue</b>					
Flat Rate	\$ 33,075	\$ 72,766	\$ 32,649	\$ 71,828	\$ 51,933
Metered	8,593	17,651	8,071	16,573	14,063
Fire Protection	6,318	9,263	5,928	8,773	8,177
Total Revenue	47,986	99,680	46,648	97,174	74,173
<b>Operating Expenses</b>					
Purchased Power	10,967	10,967	11,720	11,720	11,720
Materials	10,080	10,080	1,120	1,120	1,120
Contract Work	29,583	29,583	23,830	23,830	23,830
Transportation	8,726	8,726	9,850	9,850	9,850
Office Supplies	268	268	290	290	290
Professional Services	4,000	4,000	4,000	4,000	4,000
General Expenses	960	960	0	0	0
Subtotal	64,584	64,584	50,810	50,810	50,810
Depreciation Exp.	5,143	5,143	5,504	5,504	5,504
Payroll Tax	0	0	0	0	0
Property Tax	1,100	1,100	1,060	1,060	1,060
Local Franchise Tax	435	435	448	933	712
Income Tax	200	200	600	8,903	3,685
Total Deductions	71,462	71,462	58,422	67,210	61,771
Net Revenue	(23,476)	28,218	(11,774)	29,964	12,402
Average Plant	171,447	171,447	183,480	183,480	183,480
Avg. Depr. Reserve	74,710	74,710	75,140	75,140	75,140
Net Plant	96,737	96,737	108,340	108,340	108,340
Less: Contributions	0	0	0	0	0
Advances	0	0	0	0	0
Plus: Working Cash	4,620	4,620	6,230	6,230	6,230
Mat'l & Suppl.	800	800	800	800	800
Rate Base	102,157	102,157	115,370	115,370	115,370
Rate of Return	(Loss)	27.62%	(Loss)	25.97%	10.75%

APPENDIX B  
Page 1

SPRECKELS WATER COMPANY

Schedule No.1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Spreckels, and vicinity, located approximately 4-1/2 miles southwest of the city of Salinas, Monterey County.

RATES

Quantity Rate:

All water, per 100 cu. ft. ....	\$ 0.70	(I)
---------------------------------	---------	-----

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter .....	\$ 26.05	(I)
For 3/4-inch meter .....	28.65	
For 1-inch meter .....	39.10	
For 1-1/2-inch meter .....	52.10	
For 2-inch meter .....	70.35	
For 3-inch meter .....	130.25	
For 4-inch meter .....	177.15	

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

All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)  
(L)

APPENDIX B  
Page 2

SPRECKELS WATER COMPANY

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Spreckels, and vicinity, located approximately 4-1/2 miles southwest of the City of Salinas, Monterey County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residential unit or commercial establishment, including premises not exceeding 8,000 sq. ft. in area, where the service connection is one-inch or less in diameter .....	\$18.60	(I)
a. For each additional living unit or commercial establishment on the same premises served from the same service connection .....	11.20	(I)
b. For each 100 sq. ft. of area in excess of the 8,000 sq. ft. included in the initial charge .....	0.11	(I) (D)
2. For 2-inch service to Veterans Memorial Building, Spreckels C.E. Yard, Freeze Construction, and restaurant .....	75.30	(C) (D)
3. For 2-inch and 1-inch services to public park with 100,000 sq. ft. of irrigated area .....	124.90	(I)
4. For 2-inch and 1-inch services to Public School with 234,000 sq. ft. of irrigated area .....	300.70	(I)
5. For 4-inch services .....	143.10	(C)
All bills are subject to the reimbursement fee set forth on Schedule No. UF.		(L) (L)



APPENDIX B  
Page 3

SPRECKELS WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

Spreckels, and vicinity, located approximately 4-1/2 miles southwest of the City of Salinas, Monterey County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each inch of diameter of service connection	\$ 15.50 (I)

SPECIAL CONDITIONS

1. The customer shall pay, without refund, the entire cost of installing the fire protection service connection. Such service connection shall become and remain the property of the utility.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
3. Service under the above rate will be furnished for private fire protection purposes only. Where water is used for any other purpose on the customer's premises, the applicable flat rate charge for such additional service will be added to the charge for fire protection service.
4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
5. All bills are subject to the reimbursement fee set forth on on Schedule No. UF. (L)  
(L)

APPENDIX B  
Page 4

SFRECKELS WATER COMPANY

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities volunteer fire protection organizations, or duly organized or incorporated fire districts, or other political subdivisions of the State.

TERRITORY

Spreckels, and vicinity, located approximately 4-1/2 miles southwest of the City of Salinas, Monterey County.

RATES

	<u>Per Month</u>	
For each hydrant .....	\$ 10.30	(I)

SPECIAL CONDITIONS

1. The above rate includes the use of water for fire protection and no other purpose.
2. The cost of installation and maintenance of hydrants will be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)  
(L)

APPENDIX C  
Page 1

SPRECKELS WATER COMPANY

COMPARISON OF RATES

METERED SERVICE

<u>Service Charge</u>	<u>Per Service Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percentage</u>
For 5/8 x 3/4-inch meter..	\$12.00	\$26.05	\$14.05	117.1%
For 3/4-inch meter...	15.00	28.65	13.65	91.0%
For 1-inch meter...	20.65	39.10	18.45	89.3%
For 1 1/2-inch meter...	32.00	52.10	20.10	62.8%
For 2-inch meter...	43.00	70.35	27.35	63.6%
For 3-inch meter...	65.15	130.25	65.10	99.9%
For 3-inch meter...	85.80	177.15	91.35	106.5%

Quantity Rates

All use, per 100 cu.ft.....	0.35	0.70	0.35	100.0%
-----------------------------	------	------	------	--------

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percentage</u>
For a single-family residential unit or commercial establishment, including premises not exceeding 8,000 sq.ft. in area, where the service connection is one-inch or less in diameter ....	\$ 11.70	\$ 18.60	\$ 6.90	59.0%
For each additional living unit or commercial establishment on the same premises served from the same service connection .....	7.00	11.20	4.20	60.0%
For each 100 sq.ft. of area in excess of the 8,000 sq. ft. included in the initial charge .....	0.07	0.11	0.04	57.1%
For 2-inch service to Veterans Memorial Building, Spreckels C.E. Yard, Freeze Construction, and restaurant .....	47.25	75.30	28.05	59.4%
For 2-inch and 1-inch services to public park with 100,000 sq. ft. of irrigated area .....	\$ 78.50	\$124.90	\$ 46.40	59.1%

APPENDIX C

Page 2

SFRECKELS WATER COMPANY

COMPARISON OF RATES

For 2-inch and 1-inch services to Public School with 234,000 sq.ft. of irrigated area .....	\$189.00	\$300.70	\$111.70	59.1%
For 4-inch services .....	90.00	143.10	53.10	59.0%

PRIVATE FIRE PROTECTION SERVICE

	<u>Per Service Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase Amount</u>	<u>Increase Percentage</u>
For each inch of diameter of service connection .....	\$ 9.75	\$ 15.50	\$5.75	59.0%

PUBLIC FIRE HYDRANT SERVICE

	<u>Per Connection Per Month</u>			
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Increase Amount</u>	<u>Increase Percentage</u>
For each hydrant .....	\$ 6.50	\$ 10.30	\$3.80	58.5%

A monthly bill comparison for a customer with a 2-inch meter is shown below:

<u>Monthly Usage</u> 100 cu. ft.	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
0	43.00	70.35	27.35	63.6%
5	44.75	73.85	29.10	65.0%
10 (avg)	46.50	77.35	30.85	66.3%
15	48.25	80.85	32.60	67.6%
20	50.00	84.35	34.35	68.7%
30	53.50	91.35	37.85	70.7%
40	57.00	98.35	41.35	72.5%
50	60.50	105.35	44.85	74.1%

APPENDIX D  
Page 1

SFRECCKELS WATER COMPANY

ADOPTED QUANTITIES  
Test Year 1989

Federal Tax Rate:	15%
State Tax Rate:	9.3%
Local Franchise Tax Rate:	0.96%
Uncollectible Rate:	0.0%

Expenses:

1. Purchased Power:

Pacific Gas and Electric Company

Rate Schedule	A-1
Effective Date of Schedule	3/22/89
Kwh Used Total	113,019
Kwh Used Summer	70,406
Kwh Used Winter	42,613
\$/kwh - Summer	0.10976
\$/kwh - Winter	0.09024
Summer Charge	\$ 7,728
Winter Charge	3,845
Customer Charge	150
Demand Charge	0
Total Purchased Power	\$ 11,723

2. Purchased Water None

3. Payroll and Employee Benefits None

3. Water Testing (in contract work) \$ 600

Service Connections:

Flat Rate

Schedule #1 - Type #1 .....	183
Schedule #1 - Type #1a .....	20
Schedule #1 - Type #1/1a (2*#1 + 1*#1a) .....	1
Schedule #1 - Type #2 .....	3
Schedule #1 - Type #3 .....	1
Schedule #1 - Type #4 .....	<u>1</u>
Flat Rate Total.....	209

APPENDIX D  
Page 2

SFRECKELS WATER COMPANY

ADOPTED QUANTITIES  
Test Year 1989

Metered Rate

Meter Size

5/8 x 3/4-inch.....	0
3/4-inch.....	0
1-inch.....	0
1-1/2-inch.....	0
2-inch.....	2
3-inch.....	<u>1</u>
Metered Total.....	3

Metered Water Sales Used to Design Rates:..... 15,446 Ccf

Fire Protection

Private..... 8 connections at 4" each  
Public..... 18

ADOPTED INCOME TAX CALCULATIONS  
Test Year 1989

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 74,173	\$ 74,173
2.	Expenses	50,810	50,810
3.	Taxes Other Than Income	1,772	1,772
4.	Depreciation	5,504	5,504
5.	Interest	0	0
6.	Taxable Income for State Tax	16,087	
7.	State Tax @ 9.3% (\$600 Minimum)	1,496	1,496
8.	Taxable Income for FIT		14,591
9.	Federal Income Tax @ 15%		2,189
10.	Total Income Tax		3,685

(END OF APPENDIX D)