

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3508
August 8, 1990

R E S O L U T I O N

(RES. W-3508) SOUTHLAKE WATER COMPANY (SWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$22,627 OR 29.8% ADDITIONAL ANNUAL REVENUE.

SWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on January 2, 1990, 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 \$37,020 or 49.7%. SWC estimates that 1990 gross revenue of \$74,480 at present rates would increase to \$111,500 at proposed rates to produce a rate of return on rate base of 12.00%. SWC presently serves 479 metered and six flat-rate customers in the unincorporated Kern County community of South Lake on the south shore of Lake Isabella.

The present rates became effective May 16, 1984, pursuant to Resolution W-3180, dated May 16, 1984, which authorized an offset rate increase for power. SWC's last general rate increase was authorized by Resolution W-2641 dated May 20, 1980.

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, requested, and adopted rates for test year 1990. Appendix A shows differences in revenues, expenses, and rate base.

The Branch's estimate of metered revenues is higher than SWC's in both present and requested rates. The Branch based its estimate on a projected growth of seven (7) customers in 1990, which is the average growth rate experienced by SWC in recent years. The Branch also included an amount of metered service revenue from the conversion of commercial customers which are being improperly charged residential flat rates. In its metered service estimate, SWC used an inaccurate customer count and calculated the growth only to 1989.

The differences in estimates for operating expenses are in purchased power, employee labor, contract work, other plant maintenance, office salaries, transportation expense, uncollectibles, office rent, office supplies, insurance, general expense, franchise taxes, depreciation expense, and income taxes.

The Branch's estimate for purchased power is lower than SWC's. The Branch calculated a higher number of total kilowatt hours required for pumping and based its cost estimate on the most recent Southern California Edison

Company rate schedules (effective February 1, 1990). The Branch's estimate is lower because of its assumption that the pumps for which energy is billed under a time-of-use schedule would operate only during the off-peak periods. SWC can operate in this manner because it has adequate storage to supply the customer demand during on-peak periods without pumping from its wells.

The Branch's estimate of employee labor is lower than SWC's. The Branch based its estimate on SWC's actual meter reader and service personnel payroll records for the previous year escalated to 1990. The escalation factors used by the Branch for this and other accounts were those recommended by the Advisory Branch of the Commission Advisory and Compliance Division. SWC overstated its estimate by basing it on improperly recorded 1988 data.

The Branch's estimate of contract work is higher than SWC's. The Branch's estimate was based on higher costs of water testing and maintenance, and included the amortized cost of re-coating the storage tanks.

SWC did not include any estimate for other plant maintenance. The Branch included the cost of telephone company leased-circuit charges for facilities used in the remote control of pumps.

The Branch's estimate of office salaries is higher than SWC's. The owner of SWC also owns and operates a real estate business and a cattle ranch. The Branch reviewed the 1989 records and noted the actual amount of time office employees charged to the various business activities. Based on these figures, the Branch derived the actual water utility related payroll for 1989 and escalated it to 1990. SWC's estimate was based on using an allocation of one-third of the total for the water utility's portion.

The Branch's estimate of transportation expense is lower than SWC's. The Branch estimated the number of miles driven each year in connection with water utility business and applied a rate of \$0.24 per mile, the rate allowed by the Internal Revenue Service for tax purposes. SWC estimated the expense by assuming it would be equivalent to a \$200 per-month vehicle rental fee.

The Branch's estimate of uncollectibles is higher than SWC's at both present and requested rates. The Branch calculated the percentage of present uncollectible revenue compared to present total revenue and used this factor in making its estimates of uncollectibles. SWC used a constant amount irrespective of revenue.

The Branch's estimate for office rent is lower than SWC's. SWC shares an office building with the utility owner's real estate and cattle ranch businesses. The Branch treated the building as though it were utility owned property. An allowance for office rent was derived by applying SWC's rate of return to the depreciated original cost of the building and adding an estimate for maintenance and depreciation then further allocating the amount according to the office area required for the water utility operation (400 square feet) compared to the total office space (1,100 square feet). SWC's figure was based on an assumed square-footage rental rate for approximately the same area of the building.

The Branch's estimate for office supplies is lower than SWC's. The Branch based its estimate on recorded figures escalated for inflation and for the 1990 increase in postage rates. SWC arbitrarily escalated prior years'

amounts. For the telephone service portion of the estimate, the Branch based its figure on single-line telephone service (plus a reasonable amount of toll), which is the type of service used by other water utilities of the approximate size of SWC. SWC based its estimate for telephone service on one-third of the multi-line key telephone service it has in the office that it shares with the other affiliated businesses.

The Branch's estimate for insurance is lower than SWC's. The Branch allocated the total health insurance premiums in the same proportion used in allocating employee labor and office salaries. SWC included total premiums paid without allocating for the portion of time employees work on affiliated enterprises. For general liability coverage, the Branch averaged over three years SWC's current policy premium with the premium quotation for equivalent coverage available from the National Association of Water Companies.

The Branch's estimate for general expense is higher than SWC's. The Branch included costs of SWC's ongoing water awareness campaign which SWC overlooked.

Both the Branch and SWC based their franchise tax estimates on a percentage of operating revenue. The estimates differ to the extent that the revenue on which they are based differ and to the extent that the Branch did not include the Public Utilities Commission Reimbursement Fee.

Both the Branch and SWC based their depreciation expense estimates on a composite depreciation rate of 2.5 percent. The Branch's estimate is lower than SWC's because the Branch made a lower estimate of average plant as explained below.

The Branch concurs with SWC's estimate of payroll tax. Although the Branch's and SWC's estimates of employee and office labor are different, the total estimates of payroll on which the taxes are based are nearly the same.

The Branch's income tax estimates are higher than SWC's. The Branch's estimates reflect the current rates under the Federal Tax Reform Act of 1986 and the corresponding state rates for 1990. SWC applied incorrect tax methodology.

The difference in rate base is due to differences in plant, accumulated depreciation, advances, contributions, and working cash.

The Branch's estimate of plant in service is slightly lower than SWC's. The Branch recalculated the current plant balance by reviewing all plant additions and retirements since 1980, the date of the last general rate case. In 1989, SWC installed an office computer and showed its entire cost as water plant, whereas the computer is used for all of the affiliated businesses. The Branch apportioned one-third of the computer's cost to SWC's operations. In addition to over-allocating the computer cost, SWC made several accounting errors in reporting its plant accounts in the years following 1980.

The Branch's estimate of accumulated depreciation is higher than SWC's. The difference is due to the differences in plant estimates as described above and the Branch including one more year's depreciation expense (for 1990) than SWC.

The Branch's estimate of advances is slightly lower than SWC's. The difference is due to an error in SWC's calculation of its estimate discovered by the Branch during the process of reviewing the plant accounts for each year since 1980. SWC's annual report for 1989 shows the correct figure.

The Branch's estimate for contributions is slightly higher than SWC's. The Branch's figure reflects the correct recorded amount whereas SWC made an error in making its estimate. SWC's annual report for 1989 shows the correct current contributions.

To prevent future inconsistencies between figures adopted by the Commission and the figures shown in SWC's annual reports, the Branch recommends that SWC be directed to record on its books of account the water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1990 annual report to the Commission. Those balances are \$431,849 for total water plant in service and \$111,773 for accumulated depreciation as of December 31, 1989.

The allowance for working cash estimated by the Branch is higher than estimated by SWC. The branch used the simplified method of calculating working cash allowance adopted by the Commission on January 27, 1989, while SWC used an older estimating method.

A balancing account was established for SWC in 1984 by Resolution W-3180 which authorized an offset rate increase for power. The account has not been maintained on a consistent basis. The Branch estimated the electric energy used, the electric energy rate increases, and the offset revenue collected since 1984 and determined that the account is not over-collected. No balancing account amortization, therefore, is recommended.

SWC's draft advice letter requested rates which it estimated would produce a return on rate base of 12.00% in 1990. The Branch's recommended summary of earnings would produce a rate of return of 11.00% at the Branch's recommended rates. The 11.00% rate of return is the high point of the 10.50% to 11.00% standard rate of return range recommended by the Finance Branch of the Commission Advisory and Compliance Division for small, 100% equity financed water companies.

SWC was informed of the Branch's differing views of revenues, expenses, and rate base and has stated that it accepts the Branch's estimate.

A notice of the proposed rate increase and public meeting was mailed to each customer on March 1, 1990. One letter was received doubting SWC's need for a rate increase. No informal complaints concerning SWC have been received by the Consumer Affairs Branch in the past three years.

Approximately 15 area residents attended the public meeting on March 26, 1990. A Branch representative conducted the meeting and SWC's owner and rate consultant explained SWC's request and answered questions. Most questions concerned water quality and changing from rates which included a minimum amount of water used to service-charge-plus-quantity rates.

Branch engineers conducted an investigation of SWC's facilities and service area on March 26, 1990. They checked visible portions of the system and methods of operation, audited SWC's books and talked to customers. Their

Investigation indicated that SWC has maintained the system well and is providing good service with water pressures meeting the requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." SWC has no outstanding Commission orders requiring system improvements.

The inspection noted, however, that measuring devices were missing on discharge lines of SWC's wells. G.O. 103 requires that each utility shall install a suitable measuring device, or otherwise determine production, at each source of supply in order that a record may be maintained of the quantity of water produced. SWC should be required to install such devices.

According to the California Department of Health Services, SWC's water meets all primary and secondary drinking water standards currently in effect.

SWC has made an effort to educate its customers in the merits of water conservation which may be partially responsible for the fact that the water level in its deep wells has remained relatively constant over the past four drought years. For this reason, the Branch believes that no further conservation measures should be ordered at this time.

SWC currently has two rate schedules in use, Schedule No. 1, General Metered Service, and Schedule No. 2AR, Annual Residential Flat Rate Service.

The present metered rate tariff consists of a minimum charge determined by the size of the meter for the first 500 cubic feet of water plus a quantity charge for water in excess of 500 cubic feet.

By Decision No. 85-06-064, the Commission adopted a policy calling for recovery of up to 50% of a water utility's fixed expenses through service charges. The policy also calls for phasing out lifeline rates and encourages the reduction of multiple blocks to a single block.

The rates proposed by the Branch were designed by converting the minimum charge to a service charge set at a level to approach recovering 50% of SWC's fixed expenses but not exceeding twice the system average increase for any customer. The single quantity block rate was designed to recover the remainder of the revenue requirement.

Under present SWC practice, annual residential flat rates are charged only to individual apartment-house tenants and commercial tenants in two buildings which have single services from the water main. SWC is proceeding to convert these flat-rate services to two master metered services. The Branch recommends that following this conversion, SWC's tariff Schedule No. 2AR, Annual Residential Flat Rate Service, should be cancelled and the unused portion of the flat-rate charges paid in advance should be refunded to current flat-rate customers. SWC has agreed to these changes.

The Branch's recommended Summary of Earnings shown in Appendix A shows an increase in gross revenue of \$22,627 or 29.8%. This increase provides an 11.00% rate of return on rate base.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer using 1,000 cubic feet per month would increase from \$12.35 to \$17.55 or 42.1%. 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 adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. SWC should be required to record on its books of account the water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1990 annual report to the Commission. Those balances are \$431,849 for total water plant in service and \$111,773 for accumulated depreciation as of December 31, 1989.
5. When SWC completes conversion of flat-rate service to master metered service, SWC should be required to refund to the current flat-rate customers the unused portion of the flat-rate charges paid in advance and cancel Schedule No. 2AR, Annual Residential Flat Rate Service.
6. SWC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining production at each source of supply. SWC should be authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been placed in service.

IT IS ORDERED that:

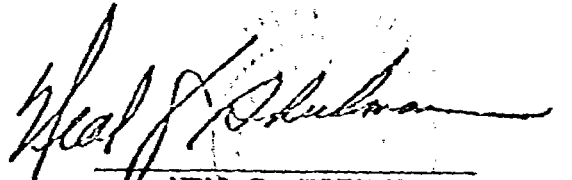
1. Authority is granted under Public Utilities Code Section 454 for Southlake Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendix A and B, respectively, and concurrently to cancel its presently effective rate 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. Southlake Water Company shall record on its books of account the water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1990 annual report to the Commission.
3. Southlake Water Company shall, within 60 days from the completion of installation of master-metered service to buildings where tenants are presently billed annual residential flat rates: (a) commence service to the master metered customers under Schedule No. 1, General Metered Service; (b) refund the unused portion of the flat rate charges paid in advance to the current customers; and (c) file an advice letter indicating that the conversion has been completed, refunds have been made, and cancelling and withdrawing Schedule No. 2AR, Annual Residential Flat Rate Service.
4. Southlake 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. Southlake 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.

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 8, 1990. The following commissioners approved it:

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


NEAL J. SHULMAN
Executive Director

APPENDIX A

SOUTHLAKE WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1990

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
<u>Operating Revenue</u>					
Metered	\$73,652	\$110,240	\$75,446	\$114,860	\$98,625
Flat Rate	828	1,260	552	840	0
Total Revenue	74,480	111,500	75,998	115,700	98,625
<u>Operating Expenses</u>					
Power	14,180	14,180	13,869	13,869	13,869
Other Vol. Related Expense	0	0	0	0	0
Employee Labor	6,230	6,230	3,562	3,562	3,562
Materials	750	750	750	750	750
Contract Work	2,480	2,480	5,770	5,770	5,770
Other Plant Maintenance	0	0	850	850	850
Office Salaries	4,060	4,060	6,740	6,740	6,740
Management Salaries	12,600	12,600	12,600	12,600	12,600
Transportation Expense	2,400	2,400	1,325	1,325	1,325
Uncollectibles	370	370	380	578	493
Office Rent	8,240	8,240	3,760	3,760	3,760
Office Supplies	4,320	4,320	2,170	2,170	2,170
Professional Services	800	800	800	800	800
Insurance	12,570	12,570	7,060	7,060	7,060
General Expense	270	270	400	400	400
Regulatory Expense	700	700	700	700	700
Subtotal	69,970	69,970	60,736	60,934	60,849
Franchise Tax	1,470	2,240	1,186	1,805	1,539
Depreciation Expense	8,120	8,120	7,761	7,761	7,761
Property Taxes	1,900	1,900	1,900	1,900	1,900
Payroll Taxes	3,510	3,510	3,510	3,510	3,510
Income Taxes	200	4,370	816	9,114	5,283
Total Deductions	85,170	90,110	75,908	85,024	80,842
<u>Net Revenue</u>	(11,690)	21,390	90	30,676	17,783
Average Plant	447,420	447,420	432,199	432,199	432,199
Avg. Accun. Depreciation	105,480	105,480	115,653	115,653	115,653
Net Plant	341,940	341,940	316,546	316,546	316,546
Less: Advances	51,550	51,550	50,539	50,539	50,539
Contributions	117,290	117,290	118,774	118,774	118,774
Plus: Working Cash	3,920	3,920	13,184	13,323	13,394
Mat'l & Supplies	1,000	1,000	1,000	1,000	1,000
<u>Rate Base</u>	178,020	178,020	161,417	161,556	161,627
<u>Rate of Return</u>	(loss)	12.00%	0.06%	18.99%	11.00%

APPENDIX B

SOUTHLAKE WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Southlake and vicinity located immediately south of State Highway 178, approximately four miles west of Weldon in Kern County. (T)
|
(T)

RATES

Per Meter
per Month

Quantity Rates:

All water used per 100 cubic feet \$ 1.12 (C)

Service Charge:

For 5/8 x 3/4-inch meter	\$ 6.35	(C)
For 3/4-inch meter	7.00	
For 1-inch meter	9.53	
For 1-1/2-inch meter	12.70	
For 2-inch meter	17.15	
For 3-inch meter	31.75	
For 4-inch meter	43.18	(C)

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 Rates. (C)
|
(C)

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

APPENDIX C

SOUTHLAKE WATER COMPANY

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

The present metered rates include the use of 5 Ccf of water per month. A Ccf is 100 cubic feet of water. Additional water is billed at the quantity rate. The present rates are the minimum charges that apply for the meter size indicated. The recommended rates are a service or readiness-to-serve charge where all water use is billed at the quantity rate.

	<u>Per Meter Per Month</u>			
	<u>Present Rates</u>	<u>Recomm'ed Rates</u>	<u>Increase Amount</u>	<u>Percent</u>
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 8.10	\$ 6.35	\$-1.75	-21.6
For 3/4-inch meter	8.95	7.00	-1.95	-21.8
For 1-inch meter	12.20	9.53	-2.67	-21.9
For 1-1/2-inch meter	16.25	12.70	-3.55	-21.8
For 2-inch meter	21.90	17.15	-4.75	-21.7
For 3-inch meter	40.60	31.75	-8.85	-21.8
For 4-inch meter	55.25	43.18	-12.07	-21.8

Quantity Charge:				
	<u>Present Rates</u>	<u>Recomm'ed Rates</u>	<u>Increase Amount</u>	<u>Percent</u>
First 5 Ccf per month, per Ccf	--	1.12	--	--
Over 5 Ccf per month, per Ccf	0.85	1.12	\$0.27	31.8

Monthly bill for a typical user with a 5/8 x 3/4-inch meter:

	<u>Per Meter Per Month</u>			
	<u>Present Rates</u>	<u>Recomm'ed Rates</u>	<u>Increase Amount</u>	<u>Percent</u>
0	\$ 8.10	\$ 6.35	\$ -1.75	-21.60
3	8.10	9.71	1.61	19.88
5	8.10	11.95	3.85	47.53
8	10.65	15.31	4.66	43.76
Average 10	12.35	17.55	5.20	42.11
15	16.60	23.15	6.55	39.46
20	20.85	28.75	7.90	37.89
50	46.35	62.35	16.00	34.52
75	67.60	90.35	22.75	33.65

APPENDIX D

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SOUTHLAKE WATER COMPANY

ADOPTED QUANTITIES

Test Year 1990

Federal Income Tax Rate	15.0%
California Income Tax Rate	9.3%
Uncollectible Rate	0.5%

Expenses:

1. Power

Southern California Edison Company:

Rate Schedule No. PA-1 (Effective date, February 1, 1990):

Kwhr used	17,372	
Rate per Kwhr	\$ 0.08726	
Amount		\$ 1,516
Customer Charge:		
Number of meters	2	
Rate per meter per month	\$ 10.95	
Amount		263
Energy Charge:		
Number of Horsepower	6	
Rate per Horsepower per month	\$ 1.10	
Amount		79

Schedule No. TOU-ALMP-2 (Effective date, February 1, 1990):

Summer:		
Kwhr used:	87,289	
Rate per Kwhr	\$ 0.07097	
Amount		6,196
Winter:		
Kwhr used	71,441	
Rate per Kwhr	\$ 0.07588	
Amount		5,421
Customer Charge:		
Number of meters	3	
Rate per meter per month	\$ 10.95	
Amount		<u>394</u>
Total Power		\$ 13,869

2. Purchased Water

None

APPENDIX D

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3. Insurance Expense		\$ 7,060
4. Payroll and Employee Benefits:		
Employee Labor		\$ 3,562
Office Salaries		6,740
Management Salaries		<u>12,600</u>
Total		\$ 22,902
Payroll Taxes		\$ 3,510
5. Ad Valorem Tax:		
Tax Rate		0.99744%
Assessed Valuation		\$190,487
Tax Paid		\$ 1,900
6. Water Testing Expense (in Contract Work)		\$ 2,248
7. Number of Services:		
5/8 x 3/4-inch meter	486	
3/4-inch meter	0	
1-inch meter	1	
1-1/2-inch meter	0	
2-inch meter	0	
3-inch meter	0	
4-inch meter	<u>0</u>	
Total	487	
8. Metered Water Sales, Ccf:		55,004

APPENDIX D

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ADOPTED INCOME TAX CALCULATIONS
Test Year 1990

: Line :		: State :	: Federal :
: No. :	Item	: Tax :	: Tax :
1	Operating Revenue	\$ 98,625	\$ 98,625
2	Expenses	60,849	60,849
3	Taxes Other than Income	6,949	6,949
4	Depreciation	7,761	7,761
5	Interest	0	0
6	Taxable Income for State Tax	23,066	
7	State Tax @ 9.3% (\$800 min.)	2,145	
8	Taxable Income for Federal Tax		20,921
9	Federal Tax @ 15% of 1st \$50,000		3,138
10	Total Income Tax		5,283

(END OF APPENDIX D)

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