

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3539
February 6, 1991R E S O L U T I O N

(RES. W-3539) OWENS VALLEY WATER COMPANY (OVWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$13,288 OR 79.8% ADDITIONAL ANNUAL REVENUE.

OVWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 10, 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 \$16,650 or 100% in 1991 and by \$9,965 in 1992. OVWC estimates that 1991 gross revenue of \$16,650 at present rates would increase to \$33,300 in 1991 and to \$43,265 in 1992 at proposed rates to produce rates of return on rate base of 3.02% in 1991 and 11.09% in 1992. OVWC presently serves 111 flat-rate customers in an unincorporated area of Inyo County adjacent to the City of Bishop.

The present rates became effective July 8, 1982, pursuant to Resolution W-2999, dated July 7, 1982, which authorized a general rate increase of \$8708 or 92.4%.

The Branch made an independent analysis of OVWC's summary of earnings. Appendix A shows OVWC's and Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1991. Appendix A shows differences in revenues, expenses, and rate base.

The differences in estimates for operating expenses are in purchased power; employee labor; contract work; office salaries; uncollectibles; general expense; and income taxes.

The Branch's estimate for purchased power is lower than OVWC's. The Branch calculated the average total kilowatt hours required for pumping during 1989 and 1990 assuming the pump efficiencies were improved to 55%. The Branch based its estimate on this requirement and the most recent Southern California Edison Company rate schedule (effective September 19, 1990). OVWC based its estimate on the cost of continued use of inefficient pumps with efficiencies of 45% or less.

The Branch's estimate for employee labor is slightly lower than OVWC's. The Branch based its estimate on the wages that would be paid under OVWC's maintenance agreement for personnel in the service area. OVWC based its estimate on the same agreement but included an escalation factor not agreed to in the contract.

The Branch's estimate of contract work is higher than OWC's. The Branch reassigned the cost of water testing to this account in lieu of including it in general expense.

The Branch excluded any estimate for office salaries. OWC estimated the cost of a clerk to perform general office work. Most office work, however, is handled by a billing service which prepares and mails OWC's bi-monthly statements to customers. The cost of this service is included in office services and rentals. The remainder of the office work is handled by OWC's manager, whose compensation is included in management salaries.

The Branch's estimates for uncollectibles are lower than OWC's. The Branch based its estimate on an uncollectible rate of 0.5% of total revenue whereas OWC assumed that uncollectibles would remain constant.

The Branch's income tax estimates are higher than OWC's. The Branch's estimates reflect the current federal and state rates for 1991. OWC made errors in applying the minimum state tax and using the proper income for federal taxes.

The difference in rate base is due to differences in plant and accumulated depreciation.

The Branch's estimate of plant in service is lower than OWC's. The Branch reviewed OWC's original-cost plant records and removed the cost of a building and land which OWC carried in water plant in service but was not used in the utility business. The Branch also made corrections for new pumping equipment placed in service and old equipment removed from service since the last general rate case in 1982. OWC's estimate reflected its recorded plant balance which had not been maintained properly.

The Branch's estimate of accumulated depreciation is higher than OWC's. The Branch based its estimate on a recalculation of OWC's accumulated depreciation balance for each year since its last general rate increase in 1982. The recalculation reflects using the 2.5% depreciation rate last adopted by the Commission. OWC's estimate reflected its recorded balance which had not been properly maintained.

To prevent future inconsistencies between figures adopted by the Commission and the figures shown in OWC's annual reports, the Branch recommends that OWC 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 \$47,999 for total water plant in service and \$21,642 for accumulated depreciation as of December 31, 1989.

OWC's draft advice letter requested rates which it estimated would produce a return on rate base of 3.02% in 1991 and 11.09% in 1992. OWC spread its request over two years in order to limit the rate increase in 1991 to 100%. The Branch's recommended summary of earnings would produce a rate of return of 11.00% in 1991 at the Branch's recommended rates. The 11.00% rate of return is between 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. Because the

Branch's recommended rates produce the recommended rate of return in 1991, there is no need for increased rates in 1992, therefore, only a 1991 test year should be considered at this time.

OWC 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 September 24, 1990. Also, the notice explained that the utility had previously increased rates in error and would refund the overcharges pursuant to a plan approved by the Commission. The Branch received three letters concerning the magnitude of the increase. The Consumer Affairs Branch has handled two inquiries concerning OWC's service and water quality in the past three years.

Approximately 30 area residents attended the public meeting in the service area on October 10, 1990. A Branch engineer conducted the meeting and OWC's manager and consultant explained OWC's request and answered questions. Customers complained of the earlier unauthorized rate increases and of the high level of the proposed rates. Customers also complained that the water contained sand, that there was inadequate fire flow available from hydrants, and that there was no response when they telephoned the company's trouble-report number.

Branch engineers conducted an inspection of OWC's facilities and service area on October 10, 1990. They checked visible portions of the system and methods of operation and talked to customers. Their investigation indicated that OWC is providing adequate service and that water pressures meet the requirements of G.O. 103, "Rules Governing Water Service Including Minimum Standards for Design and Construction." OWC has no outstanding Commission orders requiring system improvement.

The inspection noted, however, that measuring devices are required on the discharge lines of OWC's wells. G.O. 103 requires that the 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 by each source. OWC should be required to install these measuring devices.

To increase its source capacity and to alleviate the problem of sand in its water, OWC believes that a new and deeper well is required. To the extent of its financial ability, OWC is encouraged to expedite the development of this additional source of supply and installation of sand filters. If OWC develops new proven sources of supply, or treatment facilities, OWC should be authorized to file advice letters to begin recovering the reasonable cost of such facilities.

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

OWC has made an effort to educate its customers in the merits of water conservation. The water level in its 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.

All OWC customers presently receive service under Schedule No. 2, Residential Flat Rate Service. No customers receive service under Schedule No. 1, General Metered Service, or Schedule No. 4, Private Fire Protection Service.

The Branch recommends that the flat rate schedule be increased by the system average increase and the metered rate schedule be revised to reflect the Commission's metered rate design policy established by Decision No. 86-05-064. The resulting metered schedule has service charges which would recover revenue proportional to 50% of OWC'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 use an average of 16 hundred cubic feet per month.

In September 1988, apparently without realizing Commission authority was required, OWC raised its flat rate to \$17.50 per month (a \$5.00 increase) and again raised it in July 1990, to \$20.00 per month (a further \$2.50 increase). OWC has agreed to refund to customers the difference between the authorized tariff rates and the rates charged. The refunds would include interest on the overcharged amounts at OWC's recommended 11% rate of return from the date collected to the date refunded.

The Branch recommends that this refund should be in the form of a credit shown in the tariff schedules to apply from the effective date of the tariff for a continuous number of periods until the total amount of the overcharge including interest is refunded. The amount of the credit calculates to be \$10.73 per month for a period of 18 months.

This method of making refunds will provide OWC income to meet unavoidable expenses during the time that its cash flow is reduced.

The Branch found items in OWC's tariffs that are missing or obsolete and should be brought up to date. They are the Title Page; Service Area Map; Schedule No. UF, Surcharge to Fund PUC Reimbursement Fee; Rule 1, Definitions, Rule 10, Disputed Bills; Rule 15, Main Extensions; Rule 16, Service Connections, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Water; Rule 20, Fire Protection; Sample Form 3, Bill for Service; Sample Forms 4, 5, 6, 7, 8, 9, and 10, Main Extension Contracts; and Sample Form 11, Uniform Fire Hydrant Service Agreement.

The Branch's recommended Summary of Earnings shown in Appendix A shows an increase in gross revenue of \$13,288 or 79.8%. This increase provides an 11.00% rate of return on rate base for test year 1991.

At the Branch's recommended rates shown in Appendix B, the bill for a typical flat-rate residential customer would increase from \$12.50 to \$22.50. Applying the overcharge credit of \$10.73 mentioned above would result in a reduction to \$11.77 per month for 18 months after which the rates would revert to \$22.50 per month. A comparison of present and recommended rates is shown in Appendix C.

Findings

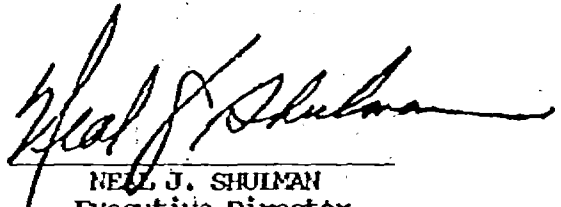
1. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. OVC should be authorized to file advice letters to begin to recover the reasonable cost of installing water source and treatment facilities as such facilities are completed and placed into service.
5. OVC should be ordered to comply with G.O. 103 by installing suitable measuring devices or otherwise determining production at each source of supply. OVC should be authorized to file an advice letter to begin recovering the reasonable costs of its installations after they have been placed in service.
6. OVC should be required to record on its books of account the water plant in service, accumulated depreciation, and contributions 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 \$47,999 for total water plant in service and \$21,642 for accumulated depreciation as of December 31, 1989.
7. OVC's tariffs have missing items and outdated sheets. They are the Title Page; Service Area Map; Schedule No. UF, Surcharge to Fund FUC Reimbursement Fee; Rule 1, Definitions, Rule 10, Disputed Bills; Rule 15, Main Extensions; Rule 16, Service Connections, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Water; Rule 20, Fire Protection; Sample Form 3, Bill for Service; Sample Forms 4, 5, 6, 7, 8, 9, and 10, Main Extension Contracts; and Sample Form 11, Uniform Fire Hydrant Service Agreement. OVC should be required to correct these tariff sheets.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Owens 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 No. 1 and No. 2. This filing shall also contain updated tariff items including: Title Page; Service Area Map; Schedule No. UF, Surcharge to Fund FUC Reimbursement Fee; Rule 1, Definitions, Rule 10, Disputed Bills; Rule 15, Main Extensions; Rule 16, Service Connections, Meters, and Customer's Facilities; Rule 17, Measurement of Service; Rule 19, Service to Separate Premises and Multiple Units, and Resale of Water; Rule 20, Fire Protection; Sample Form 3, Bill for Service; Sample Forms 4, 5, 6, 7, 8, 9, and 10, Main Extension Contracts; and Sample Form 11, Uniform Fire Hydrant Service Agreement. The effective date of the tariff sheets described shall be five days after the date of filing.

2. Owens Valley Water Company is authorized to file advice letters to begin to recover the reasonable costs of installing an additional water source and treatment facility. Such filing shall be limited to one per year during the calendar years of 1991, 1992, and 1993. Each filing shall seek to recover only the cost of those improvements that are completed and in service at the time of filing.
3. Owens 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. Owens 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. Owens Valley 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.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 6, 1991. The following Commissioners approved it:



NEIL J. SHULMAN
Executive Director

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

APPENDIX A

OWENS VALLEY WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1991

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenue</u>					
Metered	\$0	\$0	\$0	\$0	\$0
Flat Rate	16,650	33,300	16,650	33,300	29,938
Total Revenue	16,650	33,300	16,650	33,300	29,938
<u>Operating Expenses</u>					
Purchased Power	6,040	6,040	4,557	4,557	4,557
Other Vol. Related Expense	0	0	0	0	0
Employee Labor	3,780	3,780	3,600	3,600	3,600
Materials	0	0	0	0	0
Contract Work	2,100	2,100	3,075	3,075	3,075
Transportation Expense	400	400	400	400	400
Other Plant Maintenance	210	210	210	210	210
Office Salaries	3,780	3,780	0	0	0
Management Salaries	4,410	4,410	4,410	4,410	4,410
Uncollectibles	200	200	83	167	150
Office Services & Rentals	3,470	3,470	3,470	3,470	3,470
Office Supplies	1,190	1,190	1,190	1,190	1,190
Professional Services	630	630	630	630	630
Insurance	1,000	1,000	1,000	1,000	1,000
Regulatory Expense	700	700	700	700	700
General Expense	1,020	1,020	50	50	50
Subtotal	28,930	28,930	23,375	23,459	23,442
Depreciation Expense	985	985	985	985	985
Franchise Tax	0	0	0	0	0
Property Taxes	490	490	490	490	490
Payroll Taxes	1,000	1,000	1,000	1,000	1,000
Income Taxes	600	810	800	1,785	1,283
Total Deductions	32,005	32,215	26,650	27,719	27,200
<u>Net Revenue</u>	(15,355)	1,085	(10,000)	5,581	2,738
Average Plant	48,526	48,526	47,999	47,999	47,999
Avg. Accum. Depreciation	12,553	12,553	23,120	23,120	23,120
Net Plant	35,973	35,973	24,879	24,879	24,879
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l & Supplies	0	0	0	0	0
<u>Rate Base</u>	35,973	35,973	24,879	24,879	24,879
<u>Rate of Return</u>	(loss)	3.02%	(loss)	22.43%	11.00%

APPENDIX B

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OWENS VALLEY WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lazy A Estates and vicinity, adjacent to Highway 395, located approximately one and one-half miles north of Bishop, Inyo County.

RATES

Quantity Rate:

All water used per 100 cubic feet \$ 0.90 (I)

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 8.30	
For 3/4-inch meter	9.15	(R)
For 1-inch meter	12.45	(I)
For 1-1/2-inch meter	16.60	(I)

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.

SPECIAL CONDITIONS

- | | |
|---|-----------------|
| 1. Due to over-collections during the period September, 1988 thru December, 1990 the rates as computed above shall be reduced by \$10.73 per month for a period of 18 months from the effective date of Advice Letter ____. | (N)

(N) |
| 2. All bills are subject to the reimbursement fee set forth in Schedule No. UF. | (L)
(L) |

APPENDIX B
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OWENS VALLEY WATER COMPANY

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Lazy A Estates and vicinity, adjacent to Highway 395, located approximately one and one-half miles north of Bishop, Inyo County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residential unit including premises	\$ 22.50	(I)
For each additional single-family residential unit on the same premises and served from the same service connection	17.25	(I)

SPECIAL CONDITIONS

1. Due to over-collections during the period September, 1988 thru December, 1990 the rates as computed above shall be reduced by \$10.73 per month for a period of 18 months from the effective date of Advice Letter _____. (N)
|
(N)
2. The above flat rates apply to service connections not larger than one inch in diameter.
3. All service not covered by the above classification shall be furnished only on a metered basis.
4. A meter may be installed at the option of the utility in which event service thereafter will be furnished under Schedule No. 1, General Metered Service. (T)
|
(T)
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)
(L)

(END OF APPENDIX B)

APPENDIX C

OWENS VALLEY WATER COMPANY

COMPARISON OF RATES

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

Residential Flat Rate Service:

	<u>Per Service Connection Per Month:</u>		
	<u>Present</u>	<u>Adopted</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For single family residence unit including premises	\$ 12.50	\$ 22.50	80.0%
For each additional unit on the same premises	9.60	17.25	79.7%

General Metered Rate Service

The utility presently has no metered rate customers. The metered rate schedule has been designed to be approximately equal to the flat rate schedule for a customer who uses approximately the system average of 16 OCF (one OCF is one hundred cubic feet) per month.

APPENDIX D

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OWENS VALLEY WATER COMPANY

ADOPTED QUANTITIES

Test Year 1991

Federal Income Tax Rate	15.0%
California Income Tax Rate	9.3%
Uncollectible Rate	0.5%
County Franchise Tax Rate	0.0%

Expenses:

1. Power

Southern California Edison Company:

Rate Schedule No. PA-1 (Effective date, September 19, 1990):

KWH used	44,112	
Rate, per KWH	\$ 0.08832	
Amount		\$ 3,896
Customer Charge:		
Number of meters	1	
Rate, per meter per month	\$ 11.05	
Amount		\$ 133
Energy Charge:		
Number of Horsepower	40	
Rate, per Horsepower per mo.	\$ 1.10	
Amount		\$ 528
Total Power		\$ 4,557
2. Purchased Water		None
3. Payroll and Employee Benefits:		
Employee Labor		\$ 3,600
Office Salaries		0
Management Salaries		<u>4,410</u>
Total		\$ 8,010
Payroll Taxes		\$ 1,000

APPENDIX D
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ADOPTED QUANTITIES
Test Year 1991
(continued)

4.	Ad Valorem Tax:		
	Tax Rate		1.230%
	Assessed Valuation		\$ 39,756
	Tax Paid		\$ 490
5.	Water Testing Expense (in Contract Work)		\$ 975
6.	Groundwater Replenishment Charges:		none
7.	Number of Services:		
	Residential Flat Rate	111	
	General Metered Rate	0	
	Total		111
8.	Metered Water Sales, CCF:		none

ADOPTED INCOME TAX CALCULATIONS
Test Year 1991

: Line :	:	: State :	: Federal :
: No. :	Item	: Tax :	: Tax :
1	Operating Revenue	\$ 29,938	\$ 29,938
2	Expenses	23,442	23,442
3	Taxes Other than Income	1,490	1,490
4	Depreciation	985	985
5	Interest	0	0
6	Taxable Income for State Tax	4,021	
7	State Tax @ 9.3% (\$800 min.)	800	
8	Taxable Income for Federal Tax		3,221
9	Federal Tax @ 15% of 1st \$50,000		483
10	Total Income Taxes		\$ 1,283

(END OF APPENDIX D)