

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3547
March 13, 1991

R E S O L U T I O N

(Res. W-3547) WATERTEK, INC. (WI) SEWER SERVICE.
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$39,214 (59.6%) IN 1991.

WI, by draft advice letter accepted by the Water Utilities Branch (Branch) on August 16, 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 sewer service by \$54,279 or 81.3% in 1990. WI estimates that 1990 gross revenue of \$66,787 at present rates would increase to \$121,066 at proposed rates to produce a rate of return on rate base of 11.25%. WI presently serves approximately 417 flat rate sewer customers in the Oak Hills subdivision located approximately three miles east of Castroville, Monterey County.

WI's requested rate increase showing was based on a 1990 test year and the Branch analyzed the request on that basis. However, since calendar year 1990 has passed, and the rates will go into effect in 1991, the Branch calculated a 1991 test year summary of earnings which is shown on page 2 of Appendix A. This summary of earnings is based on the 1990 summary of earnings escalated to 1991 by using either the labor or non-labor inflation factors. The escalation factors used by the Branch are those recommended by the Division of Ratepayer Advocates (DRA). Rate Base category estimates are the same for 1991 as 1990.

The present rates became effective on April 8, 1987 pursuant to Resolution No. W-3356, dated April 8, 1987, which authorized an offset rate increase producing \$722 or 1.15%. Decision 86-12-051 dated December 17, 1986 authorized the present owner to acquire the system. The last general rate increase was authorized pursuant to Resolution No. W-3217 dated December 19, 1984 which authorized an increase of \$22,260 or 73.3%.

The Branch made an independent analysis of WI's summary of earnings. Appendix A shows WI's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1990. Appendix A also shows differences in revenue, expenses, and rate base.

The Branch's estimate of revenue is lower than WI's. The differences are the result of WI's inclusion of the 1.5% users fee surcharge which is not considered for ratemaking. Branch properly excluded this figure from both its revenue and expense estimates.

The differences in estimates for operating expenses are in purchased power, contract work, transportation, other plant maintenance, employee labor, management salaries, office supplies, professional services, insurance, general expense, uncollectibles, regulatory commission expense, depreciation expense, property taxes, payroll taxes, and income taxes.

The Branch's estimate of purchased power is higher than WI's. WI escalated its 1989 recorded expense while the Branch applied the latest PG&E power rates to the five year average kWh usage. Since WI has not experienced any customer growth during the last five years, the Branch believes that the average of five years recorded energy consumption fairly reflects the consumption expected in the test year.

The Branch's estimate of contract work is lower than WI's. WI's estimate for contract work consists of an expansion study, consulting fees, and water sampling costs. WI, in compliance with the County Environmental Health Department, retained the services of a consulting firm to prepare a detailed report about the capabilities of the sewer system to accommodate growth. It is the Branch's view that this study was a necessary expense but is not a continuing expense. Therefore, the Branch recommends that WI be authorized to file an advice letter to begin recovering these expenses, amortized over a three-year rate cycle period, once they are paid.

The Branch's estimate of water testing expense (included in contract work) is higher than WI's. The utility based its estimate on outdated records. The Branch's estimate of water testing is based on the utility's reported laboratory costs multiplied by the number of tests required by the State Water Quality Control Board.

The Branch's estimate of transportation expense is lower than WI's. WI applied an arbitrary 6% inflation factor to recorded 1989 figures, which included lease expense for a riding lawn mower owned by the owner of WI. The Branch properly capitalized this item as part of plant-in-service. WI also included costs associated with vehicles which were no longer used by WI. Branch properly excluded these items and then escalated its estimate for inflation. The escalation factors used by the Branch for this and other accounts were those recommended by the DRA.

The Branch's estimate of other plant maintenance is higher than WI's. The Branch included portable fence rental expense in this category. This fence is necessary for utility operations.

The Branch accepts WI's total payroll estimate but reallocated an amount from management salaries to employee labor to properly account for the allocation of labor.

The Branch's estimate of office supplies is lower than WI's. WI included the lease costs of the regular office phone, a pager, and a cellular phone. The Branch did not include the costs of a cellular phone since the pager is sufficient to contact the owner. The Branch then escalated its estimate for inflation.

The Branch's estimate of professional services is lower than WI's. WI escalated recorded 1989 expenses to the test year. The Branch's investigation revealed that WI now performs its accounting in-house and therefore there is

no longer a need to hire an accountant. Branch did do not include accounting expenses and used an average of 1989 and 1990 recorded legal expenses, escalated for inflation, to develop its estimate. The Branch's estimate of management salary includes compensation for accounting and bookkeeping work required to operate a small flat rate sewer system.

The Branch's insurance estimate is lower than WI's. The Branch's estimate is based on its examination of WI's insurance policies and receipts for payment over the latest recorded period. WI provided no explanation for its estimate.

The Branch's estimate of general expense is lower than WI's. The Branch observed that WI's owner, without Commission authorization, transferred title to 84 acres of utility property to himself and started charging the utility \$300 per month rent (violation of Public Utilities Code Section 851). Branch removed this rent from its estimate and recommends that the owner be ordered to transfer this land back to the utility.

The Branch's estimate of uncollectibles expense is lower than WI's. The reason for this is both the Branch's lower revenue estimate and the Branch's lower uncollectibles rate. WI's current uncollectibles rate is approximately 1.2%. Branch believes a more aggressive collection policy would lower this rate and has included in its estimate an uncollectibles rate of 0.6%.

The Branch's estimate of regulatory commission expense is lower than WI's. WI included the following components under regulatory commission expenses: the users fee surcharge, Monterey County franchise fees, Monterey Bay Unified Air Pollution Control District fees, and the State Water Resources Control Board fees. The Branch excluded the users fee surcharge from its estimates of revenues and expenses. The difference in franchise fees is due to differences in estimates of gross revenues. The Branch's estimate of the amount paid to the Monterey Bay Unified Air Pollution Control District is based on later information which was not available to WI when it prepared its estimates.

The Branch's estimate of depreciation expense is higher than WI's. The Branch used the results of a depreciation study recently performed by WI, while WI did not provide sufficient explanation for its estimate. The Branch recommends that WI be ordered to use a depreciation rate of 2.40%, which is the result of its depreciation study, to calculate the depreciation expense listed in the annual reports it submits to the Commission until such time as a subsequent depreciation study, approved by the Commission, indicates a different rate. Also, as explained below, the Branch's estimate of net plant additions and depreciation reserve are higher than WI's.

The Branch's estimate of property taxes is higher than WI's. The Branch used its estimate of higher plant additions as explained below and also used the latest assessment rate which was not available to WI when it made its estimate.

The Branch's estimate of payroll taxes is higher than WI's. The Branch's tax estimate is based on the total estimated labor and salaries and the current rates for social security and unemployment taxes. WI could not provide a basis for its estimate.

The Branch's income tax estimate reflects the current rates under the Federal Tax Reform Act of 1986 and the corresponding state rates for 1990. WI provided no explanation of its estimate of income taxes.

The difference in rate base is due to differences in average plant in service, average depreciation reserve, contributions, and working cash.

The Branch's estimate of plant in service, depreciation reserve, and contributions are higher than WI's for the following reasons: plant additions not included in the utility's original filing such as the Regional Water Quality Control Board (RWQCB) ordered road/effluent barrier and an observation well; and the riding grass mower which, as discussed earlier, WI erroneously treated as an expense item. The Branch's estimate for depreciation reserve includes the appropriate depreciation rate and the additional plant which was omitted from WI's original filing. The Branch's estimate of contributions reflect the contributions made towards the purchase of the RWQCB ordered easement.

The Branch used the new simplified method of calculating a working cash allowance adopted by the Commission on January 27, 1989 to estimate its working cash allowance. WI used an older, outdated method of calculating working cash.

WI's draft advice letter requested rates which it estimated would produce a return on rate base of 11.25%. The Branch's recommended summary of earnings would produce a rate of return of 11.00% at the Branch's recommended rates. This 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 utilities.

WI 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 was mailed to each customer on September 15, 1990. Two letters protesting the increase were received by the Branch. Both letters complained of the magnitude of the increase compared to changes in the cost of living over the same period of time. Five complaints have been received by the Consumer Affairs Branch (CAB) in the last three years. CAB's records indicate they were all resolved in a satisfactory manner.

On October 11, 1990 a public meeting, attended by 15 members of the public, was held near WI's service area. A Branch representative conducted the meeting and WI's representative was there to answer questions. Questions were raised about the magnitude of the increase compared to the change in the cost of living over the same period of time.

Branch engineers conducted a field investigations of WI's facilities and service area on August 30, 1990. Visible portions of the sewer system were inspected, customers interviewed, and methods of operation checked. The investigation indicated that service was satisfactory.

WI currently has one rate schedule: Schedule No. 1, General Residential Service.

The flat rate proposed by the Branch, included here as Appendix B, was designed by applying the system average increase to this one rate category.

The Branch recommends that the Commission authorize an increase in gross revenue of \$39,214, or 59.6% in 1991. This increase will provide an 11.00% rate of return on rate base in test year 1991.

At the Branch's recommended rates shown in Appendix B, the bill for general residential sewer service would increase from \$39.45 to \$62.96 per quarter (59.6%). A comparison of customer bills at 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. WI should be authorized to file an advice letter for an offset rate increase to recover the reasonable costs associated with the report required by the county environmental health department, after the study has been paid for. These costs should be amortized over a three-year rate cycle period.
5. WI should be ordered to use a depreciation rate of 2.40% based on its depreciation study to calculate depreciation expense listed in the annual reports it files with the Commission until such time as a subsequent depreciation study, approved by the Commission, indicates a different rate.
6. WI should be ordered to transfer the 84 acres of sprayfields from the owner back to the utility.
7. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED THAT:

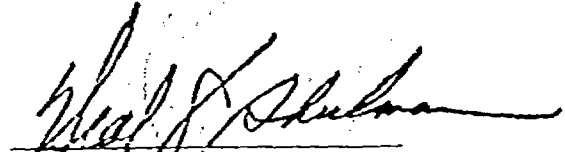
1. Authority is granted under Public Utilities Code Section 454 for Watertek, Inc. Sewer Service to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate Schedule 1. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. Watertek, Inc. Sewer Service is authorized to file an advice letter for an offset rate increase to recover the reasonable costs associated with the report required by the county environmental health department, after the study has been paid for. These costs shall be amortized over a three-year rate cycle period.
3. Watertek, Inc. Sewer Service shall continue to use a depreciation rate of 2.40% to calculate depreciation expense for its annual reports filed with the Commission until such time as a subsequent depreciation rate is approved by the Commission.

4. Watertek, Inc. Sewer Service is ordered to transfer the 84 acres of sprayfields from the utility's owner (Ray Smith) back to Watertek, Inc. Sewer Service.

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 13, 1991. The following commissioners approved it:

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL WM. FESSLER
NORMAN D. SHUMWAY
Commissioners


NEAL C. SHUMAN
Executive Director

APPENDIX A
Page 1WATERTEK, INC.
SEWER SERVICESUMMARY OF EARNINGS
Test Year 1990

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
<u>Operating Revenue</u>					
Flat Rate	\$ 66,787	\$121,066	\$ 65,803	\$119,277	\$102,483
<u>Operating Expenses</u>					
Purchased Water	76	76	76	76	76
Purchased Power	2,002	2,002	2,854	2,854	2,854
Materials	3,381	3,381	3,381	3,381	3,381
Contract Work	8,414	8,414	4,488	4,488	4,488
Transportation	8,981	8,981	4,666	4,666	4,666
Other Plant Maint.	0	0	1,125	1,125	1,125
Employee Labor	3,600	3,600	7,200	7,200	7,200
Office Salaries	8,400	8,400	8,400	8,400	8,400
Management Salaries	24,000	24,000	20,400	20,400	20,400
Office Services & Rent	2,400	2,400	2,400	2,400	2,400
Office Supplies	5,052	5,052	4,324	4,324	4,324
Professional Services	4,732	4,732	500	500	500
Insurance	13,239	13,239	6,050	6,050	6,050
General Expense	3,600	3,600	0	0	0
Uncollectibles	1,000	1,500	395	716	615
Regulatory	2,338	4,200	1,701	2,771	2,435
Subtotal	91,215	93,577	67,960	69,351	68,914
Depreciation Exp.	4,574	4,574	6,550	6,550	6,550
Property Taxes	1,280	1,280	1,580	1,580	1,580
Payroll Taxes	2,535	2,535	2,978	2,978	2,978
Income Taxes	0	4,000	800	8,891	5,145
Total Deductions	99,604	105,966	79,868	89,350	85,167
<u>Net Revenue</u>	(32,817)	15,100	(14,065)	29,927	17,316
Average Plant	748,690	748,690	792,900	792,900	792,900
Avg. Depr. Reserve	197,900	197,900	205,230	205,230	205,230
Net Plant	550,790	550,790	587,670	587,670	587,670
Less: Advances	0	0	0	0	0
Contributions	419,570	419,570	430,250	430,250	430,250
Plus: Working Cash	3,000	3,000	0	0	0
Mat'l & Suppl.	0	0	0	0	0
Rate Base	134,220	134,220	157,420	157,420	157,420
Rate of Return	(loss)	11.25%	(loss)	19.01%	11.00%

APPENDIX A
Page 2WATERTEK, INC.
SEWER SERVICESUMMARY OF EARNINGS
Test Year 1991

Item	Adopted Rates
<u>Operating Revenue</u>	
Flat Rate	\$105,017
<u>Operating Expenses</u>	
Purchased Water	78
Purchased Power	2,854
Materials	3,472
Contract Work	4,609
Transportation	4,792
Other Plant Maint.	1,155
Employee Labor	7,546
Office Salaries	8,803
Management Salaries	21,379
Office Services & Rent	2,465
Office Supplies	4,441
Professional Services	514
Insurance	6,050
General Expense	0
Uncollectibles	630
Regulatory	2,485
Subtotal	71,273
Depreciation Exp.	6,550
Property Taxes	1,612
Payroll Taxes	3,121
Income Taxes	5,145
Total Deductions	87,701
<u>Net Revenue</u>	17,316
Average Plant	792,900
Avg. Depr. Reserve	205,230
Net Plant	587,670
Less: Advances	0
Contributions	430,250
Plus: Working Cash	0
Mat'l & Suppl.	0
Rate Base	157,420
Rate of Return	11.00%

END OF APPENDIX A

APPENDIX B
Page 1

WATERTEK, INC.
SEWER SERVICE

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

Oak Hills Subdivision (Units 2, 4, 5, 6 and 7) located immediately north of State Highway 156, approximately 3 miles east of Castroville, Monterey County.

RATES

	<u>Per Service Per Quarter</u>	
Single Family Residence.....	\$ 62.96	(I)
Each single-family dwelling unit in a duplex, apartment or other multiple-family dwelling development.....	\$ 62.96	(I)

SPECIAL CONDITIONS

- | | |
|---|------------|
| 1. The established billing cycle is every third month (quarterly). | (T) |
| 2. Payment is due in advance and prior to the beginning of each calendar quarter. | (T) |
| 3. All bills are subject to the reimbursement fee set forth in Schedule No. UF. | (L)
(L) |

END OF APPENDIX B

APPENDIX C
Page 1

WATERTEK, INC.
SEWER SERVICE

COMPARISON OF RATES

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

FLAT RATE SERVICE

	<u>Per Service Per Quarter Test Year 1990</u>			
	<u>Present</u>	<u>Recommended</u>	<u>Increase</u>	
	<u>Rate</u>	<u>Rates</u>	<u>Amount</u>	<u>Percentage</u>
Single Family Residence.....	\$ 39.45	\$ 62.96	\$ 23.51	59.6%
Each single family dwelling unit in a duplex, apartment or other multiple-family dwelling development.....	\$ 39.45	\$ 62.96	\$ 23.51	59.6%

END OF APPENDIX C

APPENDIX D
Page 1WATERTEK, INC.
SEWER SERVICEADOPTED QUANTITIES

Test Years 1990 and 1991

Federal Tax Rate:	15%
State Tax Rate:	9.3%
Uncollectible Rate:	0.6%
Franchise Rate:	2.0% + \$385
Net-To-Gross:	1.3317

Expenses:

1. Purchased Power:

Pacific Gas & Electric Co.	
Rate Schedule	A-4A
Effective Date	1/1/90
Kwhr Used - Total	30,960
Winter Kwhr Used	
Off Peak	19,786
On Peak	0
Summer Kwhr Used	
Off Peak	10,186
On Peak	988
\$ per Kwhr	
Winter Off Peak	\$0.04497
Winter On Peak	0.0
Summer Off Peak	0.05429
Summer On Peak	0.26992
Winter Charge	\$890
Summer Charge	820
Service Charge per Meter	\$ 10.00 + \$6.20
Number of Meters	2
Service, Meter Charge	\$388
Total Horsepower	35
Demand Charge per HP	\$ 1.80
Demand Charge	\$756

Total Purchased Power \$2,854

2. Purchased Water	\$ 76
3. Insurance Expense	\$6,050
4. Ad Valorem Taxes	\$1,580
Composite Tax Rate	1.05023
Assessed Value	\$128,663
Direct Assessments	\$228
5. Water Testing Expenses	\$2,688
(Included in Contract Work)	

APPENDIX D
Page 2WATERTEK, INC.
SEWER SERVICEADOPTED QUANTITIES

Test Years 1990 and 1991

Service Connections

Flat Rate	417
Total	417

ADOPTED INCOME TAX CALCULATIONS
Test Year 1990

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$102,483	\$102,483
2.	Expenses	68,914	68,914
3.	Taxes Other Than Income	4,558	4,558
4.	Depreciation	6,550	6,550
5.	Interest	0	0
6.	Taxable Income for State Tax	22,461	
7.	State Tax @ 9.3% (\$800 Min.)	2,089	2,089
8.	Taxable Income for FIT		20,372
9.	Federal Income Tax @ 15%		3,056
10.	Total Income Tax		\$5,145

ADOPTED INCOME TAX CALCULATIONS
Test Year 1991

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$105,017	\$105,017
2.	Expenses	71,273	71,273
3.	Taxes Other Than Income	4,733	4,733
4.	Depreciation	6,550	6,550
5.	Interest	0	0
6.	Taxable Income for State Tax	22,461	
7.	State Tax @ 9.3% (\$800 Min.)	2,089	2,089
8.	Taxable Income for FIT		20,372
9.	Federal Income Tax @ 15%		3,056
10.	Total Income Tax		\$5,145

END OF APPENDIX D