

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3628
January 10, 1992

RESOLUTION

(Res W-3628) SIERRA CITY WATER WORKS (SCWW). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$12,042 (107.02%) IN 1991.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$12,042 or 107.02% for test year 1991. The increase will provide a 7.77% rate of return on rate base in test year 1991.

BACKGROUND

SCWW, by draft advice letter, accepted by the Water Utilities Branch (Branch) on August 5, 1991, requests 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 \$12,042 or 107.02% in 1991. SCWW's request shows 1991 gross revenue of \$11,252 at present rates increasing to \$23,294 at proposed rates to produce a rate of return on rate base of 4.76%. SCWW presently serves approximately 62 flat rate, and 10 metered rate customers in its service area in and around the community of Sierra City, approximately 40 miles northeast of Grass Valley, Sierra County.

The present rates became effective on August 24, 1988, pursuant to Commission Resolution W-3407, which authorized a general rate increase producing \$7,100 or 121.7% additional annual revenue.

DISCUSSION

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

SCWW's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 4.76%. The summary of earnings in Appendix A shows a rate of return of 7.77% at the Branch's recommended rates. This rate of return, although lower than 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 utilities, results in SCWW's being granted the total revenue increase requested.

The authorized rate of return in the utility's last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items. The Branch therefore recommends that the Commission find a rate of return on rate base not exceeding 11.00% to be reasonable for the purpose of future earnings tests for SCWW.

SCWW was informed of the Branch's differing views of expenses and rate base and has stated that it accepts the Branch's estimates.

Approximately 2,000 feet of SCWW's distribution main runs under State Highway 49. In addition to being old, deteriorating and undersized, this length of pipe is not buried at acceptable depths, running fairly close to the roadway surface. Because the system is located in a logging area, trucks traveling on the highway often cause this main to rupture. SCWW wishes to replace the main and has an opportunity to split the trenching cost with the local fire agency who plans to replace its own fire mains in the area. SCWW provided proper notice of the proposed project pursuant to the Commission's Service Improvement Policy which requires water companies to provide public notice of proposed plant additions that will result in large rate increases. There were no objections to the project by SCWW's customers as discussed below, therefore, the Branch recommends SCWW be authorized to file an advice letter rate increase request to recover all reasonable costs associated with the main replacement once it has been placed into service.

In February, 1982, the Commission adopted a policy of capping small water company rate increases at 100% per year with the deferred revenues being made up, with interest, through rates approved for the subsequent year. Rates are lowered to their final level in the third year when all deferred revenues and interest have been recovered. The Branch's proposal deviates from this policy by recommending the full increase be granted now rather than 100% now, the remainder (7.02% plus interest) in twelve months, and then dropping rates to their final level in 24 months. In this case the current rates, which were established over three years ago, are exceptionally low; the proposed rates are not so high as to be burdensome; and imposing two rate increases and then a decrease would result in more complication for this small company and its customers than was intended by the Commission's policy.

In addition to its request for a rate increase, SCWW also requested authority to assess a facilities fee on all new service connections pursuant to Commission Decision (D.)91-04-068, which required that the facilities fee be filed and approved as part of an advice letter general rate increase request. The facilities fee is intended to cover some of the costs associated with additional production, storage and distribution facilities required for new connections. To this date, SCWW has not provided sufficient information to substantiate the amount of facilities fee it has requested. The utility, however, has informed the Branch that it is reworking its request and wishes to refile it in the near future. In order to allow SCWW the rate relief it deserves, the Branch recommends that SCWW be authorized to file an advice letter request for authority to assess a facilities fee at a later date, independent of a general rate increase request filing as required in D.91-04-068.

At Branch's recommended rates shown in Appendix B, the bill for an average residential flat rate customer would increase from \$12.00 to \$24.00 (100.00%).

per month. SCW has no metered residential customers at this time. A comparison of customer bills at present and recommended rates is shown in Appendix C.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on August 9, 1991. Four letters protesting the magnitude of the rate increase request were received by the Branch. Two of the letters also claimed that part-time residents were being treated unfairly by having to pay the same rate as full-time residents. The Branch has responded to all four protesters by mail assuring them that their concerns would be taken into full consideration by the Branch when making its final recommendations on this matter to the Commission. The Commission's Consumer Affairs Branch has not received any service complaints against SCW over the last three years.

A public meeting was held on August 28, 1991, in the vicinity of SCW's service area. The Branch's representative explained Commission rate setting procedures; the utility owner explained the need for the rate increase, and representatives from the Office of Drinking Water discussed new state water quality requirements mandated by the current Federal Safe Drinking Water Act. The representatives also discussed certain requirements the utility may be subject to in the way of system design. Twenty-one customers attended the public meeting and although most felt that the requested increase was too high, most expressed an understanding of the need for a rate increase. All of the customers at the meeting also agreed that SCW provides excellent water service.

In addition to the general rate increase request, SCW's proposal to replace 2,000 feet of water main under State Highway 49 was discussed at the meeting. No objections to the project were expressed by the customers at the meeting.

FINDINGS AND CONCLUSIONS

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. SCW should be authorized to file an advice letter rate increase request to recover all reasonable costs associated with the replacement of 2,000 feet of main once it has been placed into service.
5. SCW should be authorized to file an advice letter requesting authority to assess a facilities fee at a later date, independent of a general rate increase request filing as required in D.91-04-068.
6. The rate increase authorized herein is justified, and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Sierra City Water Works 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 Nos. 1 and 2. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Sierra City Water Works is authorized to file an advice letter rate increase request to recover all reasonable costs associated with the installation of the 2,000-foot main replacement once it has been placed into service.
3. Sierra City Water Works is authorized to file an advice letter requesting authority to assess a facilities fee.
4. For the purpose of earnings tests in any future offset rate increase requests for Sierra City Water Works, a rate of return on rate base not exceeding 11.00% shall be considered reasonable.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on January 10, 1992. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

Appendix A

Sierra City Water Works, Inc.

SUMMARY OF EARNINGS
Test Year 1991

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	Rates	Rates	Rates	Rates	Rates
Operating Revenue					
Flat Rate	8,928*	17,856	8,928	17,856	17,856
Metered Rate	<u>2,324</u>	<u>5,438</u>	<u>2,324</u>	<u>5,438</u>	<u>5,438</u>
Total Revenue	11,252	23,294	11,252	23,294	23,294
Operating Expenses					
Purchased Power	0	0	0	0	0
Materials	1,556	1,556	1,556	720	720
Contract Work	0	0	832	832	832
Transportation	3,100	3,100	3,100	2,098	2,098
Office Salaries	500	500	500	500	500
Management Salaries	5,200	5,200	5,200	5,200	5,200
Emp. Pen. & Benefits	0	1,000	0	0	0
Uncollectible Accts.	0	0	0	0	0
Office Supplies	360	360	360	360	360
Office Services & Rent	350	350	350	350	350
Professional Services	800	800	600	600	600
Insurance	1,060	1,060	1,060	1,795	1,795
General	300	300	300	300	300
Reg. Commission Expen.	<u>0</u>	<u>0</u>	<u>67</u>	<u>67</u>	<u>67</u>
Subtotal	13,226	14,226	13,925	12,822	12,822
Depreciation	2,556	2,556	2,556	2,556	2,556
Property Taxes	1,500	1,500	522	522	522
Payroll Taxes	684	684	684	684	684
Income Taxes	<u>800</u>	<u>1,249</u>	<u>800</u>	<u>1,687</u>	<u>1,687</u>
Total Deductions	18,766	20,215	18,487	18,271	18,271
Net Revenue	(7,514)	3,079	(7,235)	5,024	5,024
Rate Base					
Average Plant	80,510	80,510	80,510	84,510	84,510
Average Dep. Reserve	16,414	16,414	16,414	16,414	16,414
Net Plant	64,096	64,096	64,096	64,096	64,096
Less Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus Working Cash	0	0	0	0	0
Mat'l. & Supplies	575	575	575	575	575
Rate Base	64,671	64,671	64,671	64,671	64,671
Rate of Return	loss	4.76%	loss	7.77%	7.77%

* Corrected to reflect utility's currently filed tariff.

END OF APPENDIX A

APPENDIX B
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SIERRA CITY WATER WORKS, INC.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Sierra City located on Highway 49 in Sierra County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water, per 100 cu.ft.	\$ 0.88	(I)
Service Charge:		
For 5/8 x 3/4-inch meters	13.80	(I)
For 3/4-inch meters	20.70	
For 1-inch meters	34.50	
For 1 1/2-inch meters	69.00	
For 2-inch meters	110.40	(I)

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

SPECIAL CONDITIONS

1. The established billing cycle is quarterly, i.e. every three months. The utility may bill monthly at its option. (N)
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (N)

APPENDIX B
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SIERRA CITY WATER WORKS, INC.

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Sierra City located on Highway 49 in Sierra County.

RATE

Per Service Connection
Per Month

For each service connection
not exceeding 3/4" diameter \$ 24.00 (I)

SPECIAL CONDITIONS

1. All service not covered by the above classification will be furnished only on a metered basis.
2. A meter may be installed at the option of the utility, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.
3. The established billing cycle is quarterly, i.e. every three months.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(N)
|
(N)

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SIERRA CITY WATER WORKS, INC.

COMPARISON OF RATES

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

FLAT RATE SERVICE

	<u>Per Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For each service connection not exceeding 3/4" diameter	\$ 12.00	24.00	100.00%

METERED SERVICE

	<u>Per Meter Per Month</u>		<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
For 5/8 x 3/4-inch meters	\$ 9.40	13.80	46.81%
For 3/4-inch meters	10.35	20.70	100.00%
For 1-inch meters	14.15	34.50	143.82%
For 1 1/2-inch meters	18.80	69.00	267.02%
For 2-inch meters	25.40	110.40	334.65%

Quantity Rates:

Per 100 cu.ft	0.44	0.88	100.00%
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SIERRA CITY WATER WORKS, INC.

ADOPTED QUANTITIES

Expenses:

1. Purchased Power	None
2. Payroll & Employee Benefits	
Management Salary	\$5,200
Office Salary	500
Total Payroll	5,700
Pension and Benefits	0
Payroll Taxes	684
3. Ad Valorem Taxes	\$ 552
Composite Tax Rate	1.00%
Assessed Value	\$55,227
5. Water Testing Expense	\$732

Service Connections:

Metered	
5/8 x 3/4-inch	0
3/4-inch	8
1-inch	1
1 1/2-inch	0
2-inch	1
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Total	10
Flat	
Residential	62

Metered Water Sales Used to Design Rates: 1,945 Ccf

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SIERRA CITY WATER WORKS, INC.

ADOPTED QUANTITIES

ADOPTED TAX CALCULATIONS
1991 test year

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenues	\$23,294	\$23,294
2.	Expenses	\$12,822	\$12,822
3.	Taxes Other Than Income	\$1,206	\$1,206
4.	Depreciation	\$2,556	\$2,556
5.	Interest	\$0	\$0
6.	Taxable Income for State Tax	\$6,710	
7.	State Tax (@ 9.3%)	\$800	\$800
8.	Taxable Income for FIT		\$5,910
9.	Federal Income Tax (@ 15.0%)		\$887
10.	Total Income Tax	\$1,687	

California Corporate Franchise Tax Minimum of \$800.