

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3630
January 21, 1992

RESOLUTION

(RES. W-3630) FRENCH GULCH DITCH SYSTEM (FGDS). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$1,991 (282.0%) IN 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$1,991 or 282.0% in 1992 to provide a 10.0% rate of return on rate base in test year 1992.

BACKGROUND

FGDS, by draft advice letter accepted by the Water Utilities Branch (Branch) on August 19, 1991 requests authority under Section VI of General Order No. 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$1,991 or 282.0% in 1992. FGDS's request shows 1992 gross revenue of \$706 at present rates increasing to \$2,036 at proposed rates to produce a rate of return on rate base of 10.0%. FGDS presently serves approximately 27 flat rate irrigation customers in French Gulch, Shasta County, located approximately seventeen miles northwest of Redding.

The present rates became effective on March 1, 1974, pursuant to Resolution No. W-1523 dated February 5, 1974, which authorized a general rate increase of \$900 or 100.0%. Since then FGDS has lost 19 customers. By Decision No. 87-04-031, dated April 8, 1987, the present owner was authorized to purchase the system.

DISCUSSION

The Branch made an independent analysis of FGDS's summary of earnings. Appendix A shows FGDS's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1992.

The Branch has an ongoing outreach program to assist operators of small water utilities who need help in preparing rate relief requests. Since this utility has not requested a rate increase for over seventeen years, the Branch assisted FGDS in preparing and filing the necessary work papers. Therefore, there is no difference in the summaries of earnings developed by the staff and FGDS as shown in Appendix A.

At present, FGDS carries no liability insurance. The Branch recommends that FGDS be authorized file an advice letter to begin recovering the cost of a liability insurance policy once such a policy is in effect.

FGDS's plant consists of only a small diversion dam and inlet structure and the ditch, which meanders through town. It is a very old system and almost fully depreciated. FGDS and Branch agreed that \$10.00 was a reasonable figure for rate base. At a 10% rate of return, a \$10 rate base would earn a \$1.00 return.

Pursuant to Section 2713 of the Public Utilities Code, FGDS is prohibited from charging any rates for service under that portion of existing Schedule No. 3, Irrigation and Fire Protection Service which relates to fire protection service, without a formal agreement with a local fire protection agency. Because FGDS has no such agreement, the Branch recommends that that portion of existing Schedule No. 3, Irrigation and Fire Protection Service which relates to fire protection service, should be eliminated.

Both the Branch's and FGDS's recommended summaries of earnings would produce a rate of return of 10.0%. While this rate is below 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, it grants the utility the full amount it requested.

The authorized rate of return in a 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 such as purchased power. 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 FGDS.

In February, 1982 the Commission adopted a policy of capping small water company rate increases at 100% per year. In most instances the increased revenues deferred by capping are 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. A rate increase greater than 100% in the first year is permitted when necessary to eliminate a negative rate of return or out-of-pocket losses. In this case for FGDS, the Branch's proposal, although greater than 100%, eliminates the negative rate of return and contains \$1.00 for return.

The Branch recommends that FGDS be granted a general rate increase of \$1,991 or 282.0% in 1992 to provide a 10.0% estimated rate of return on rate base.

At the Branch's recommended rates shown in Appendix B, the bill for an average irrigation flat rate service would increase from \$34.00 per year to \$129.88 per year or 282.0% in 1992. 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 29, 1991. No letters protesting the increase were received by the Branch. No other complaints were received by the Commission's Consumers Affairs Branch over the past three years.

A public meeting was held on September 25, 1991, at the French Gulch School, adjacent to the service area. The Branch's representative explained Commission rate setting procedures, and a utility representative explained the need for the rate increase. Three members of the public attended the public meeting as well as a representative of the Shasta County Community Services Department, who spoke briefly about the status of a piped municipal domestic water system the county is attempting to develop. The customers acknowledged their relatively low rates and expressed little hesitation at paying increased rates. The customers want the ditch system to remain operational for irrigation purposes even if a new piped municipal domestic system is constructed.

According to Shasta County health officials FGDS meets all water quality standards currently in effect for irrigation systems. There are no outstanding Commission orders requiring system improvements.

FINDINGS

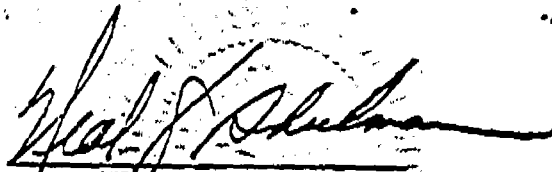
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. FGDS should be authorized to file an advice letter to begin recovering the cost of a liability insurance policy once such a policy is in effect.
5. 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 French Gulch Ditch System to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendix A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. 3. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. French Gulch Ditch System is authorized to file an advice letter to begin recovering the cost of a liability insurance policy once such a policy is in effect.
3. For the purpose of earnings tests in any future offset rate increase requests for French Gulch Ditch System, a rate of return on rate base not exceeding 11.00% shall be considered reasonable.

4. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 21, 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

FRENCH GULCH DITCH SYSTEM

SUMMARY OF EARNINGS
 Test Year 1992

Item	:Utility Estimated :		:Branch Estimated :		:Adopted :
	:Present :	:Requested :	:Present :	:Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
<u>Operating Revenues</u>					
Flat Rate	\$ 706	\$2,697	\$ 706	\$2,697	\$2,697
Other	0	0	0	0	0
Total Revenue	706	2,697	706	2,697	2,697
<u>Operating Expenses</u>					
Power	0	0	0	0	0
Materials	0	0	0	0	0
Contract Work	2,036	2,036	2,036	2,036	2,036
Other Plant Maint.	0	0	0	0	0
Office Supplies & Exp.	25	25	25	25	25
Office Salaries	120	120	120	120	120
Transportation Exp	0	0	0	0	0
Insurance	0	0	0	0	0
Uncollectibles	250	500	250	500	500
Professional Services	0	0	0	0	0
General Exp	0	0	0	0	0
Subtotal	2,431	2,681	2,431	2,681	2,681
Depreciation Exp	0	0	0	0	0
Taxes Other Than Income	15	15	15	15	15
Income Taxes	0	0	0	0	0
Total Deductions	2,446	2,696	2,446	2,696	2,696
Net Revenue	(1,740)	1	(1,740)	1	1
<u>Rate Base</u>					
Avg. Plant	10	10	10	10	10
Avg. Depr. Reserve	0	0	0	0	0
Net Plant	10	10	10	10	10
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
Rate Base	10	10	10	10	10
Rate of Return	(LOSS)	10.00%	(LOSS)	10.00%	10.00%

(END OF APPENDIX A)

APPENDIX B
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FRENCH GULCH DITCH SYSTEM

Schedule No. 3

IRRIGATION SERVICE

APPLICABILITY

Applicable to all water service rendered for irrigation purposes.

(D)
(D)

TERRITORY

In the area supplied by the French Gulch Ditch System in French Gulch and vicinity, Shasta County.

RATES

Per
Calendar
Year

For irrigation of lawns, gardens, orchards, fields and pastures, applied to each separate parcel:

For the first 2,000 sq.ft. or less.....	\$ 45.84	(I)
For the next 4,000 sq.ft., per 100 sq.ft.	1.53	
For the next 9,000 sq.ft., per 100 sq.ft.....	0.76	
For the next 15,000 sq.ft., per 100 sq.ft.....	0.15	
For all over 30,000 sq.ft., per 100 sq.ft.....	0.08	(I)

SPECIAL CONDITIONS

1. One-half of the estimated bill for water service requested shall be paid at time of application.
2. Final payment of annual charge is subject to adjustment on basis of area actually irrigated and is due and payable on August 1st.
3. Consumers desiring irrigation service shall apply to the owner and/or operator of this utility on or before the first day of March of each year, stating the area desired to be irrigated and the location thereof.

(END OF APPENDIX B)

APPENDIX C

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FRENCH GULCH DITCH SYSTEM

COMPARISON OF RATES

IRRIGATION SERVICE

		<u>Per Calendar Year</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Percent</u>
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
For the first	2,000 sq. ft. or less	\$ 12.00	45.84	282.0%
For the next	4,000 sq. ft., per 100	0.40	1.53	282.5%
For the next	9,000 sq. ft., per 100	0.20	0.76	280.0%
For the next	15,000 sq. ft., per 100	0.04	0.15	275.0%
For all over	30,000 sq. ft., per 100	0.02	0.08	300.0%

A yearly bill comparison for 4,000, 9,000, and 12,000 square feet of irrigated space:

<u>Irrigated</u>	<u>Present</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
<u>space</u>	<u>Bills</u>	<u>Bills</u>	<u>Increase</u>	<u>Increase</u>
4,000 sq.ft	\$ 20.00	\$ 76.44	\$ 56.44	282.2%
9,000 sq.ft	34.00	129.84	95.84	281.9%
12,000 sq.ft	40.00	152.64	112.64	281.6%

(END OF APPENDIX C)

APPENDIX D
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FRENCH GULCH DITCH SYSTEM

ADOPTED QUANTITIES
Test Year 1992

Federal Income Tax Rate: 15.0%
California Income Tax Rate: 9.3%
Business License: 0.0%
Uncollectible Rates: 0.0%

Expenses:

		<u>Amount</u>
1.	Purchased Power and Purchased Water	None
2.	Contract Work	
	Backhoe	
	50 hours @ \$40/hour	\$2,000
	6 hours @ \$6/hour	36
		\$ 2,036
3.	Payroll and Employee Benefits:	
	Office Salary	\$ 120
	Total Payroll	\$ 120
	Employees' Pensions and Benefits	\$ 0
	Payroll Taxes	\$ 0
4.	Ad Valorem Taxes:	
	Ad Valorem Taxes	\$ 15
5.	Flat Rate Customers	27

ADOPTED TAX CALCULATIONS
1992 Test Year

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenues	\$2,697	\$2,697
2.	Expenses	\$2,681	\$2,681
3.	Taxes Other Than Income	\$15	\$15
4.	Depreciation	\$0	\$0
5.	Interest	\$0	\$0
6.	Taxable Income for State Tax	\$1	
7.	State Tax (@ 9.3%)	\$0	\$0
8.	Taxable Income for FIT		\$1
9.	Federal Income Tax (@ 15.0%)		\$0
10.	Total Income Tax		\$0

(END OF APPENDIX D)