

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3652
June 17, 1992

RESOLUTION

(Res W-3652) INTERSTATE 5 UTILITY COMPANY, INC, (SEWER)
(I-5) ORDER AUTHORIZING A GENERAL RATE INCREASE FOR
SEWER SERVICE PRODUCING AN ADDITIONAL ANNUAL REVENUE OF
\$3,491 (4.35%) IN 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$3,491 or 4.35% for test year 1992. The increase will provide a 14.15% rate of return on rate base in test year 1992.

BACKGROUND

On June 18, 1991, I-5 requested Water Utilities Branch (Branch) assistance in obtaining authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase its rates for sewer service. I-5 is a sewer utility and a water utility under common ownership and operation. It's sewer operation presently serves 19 commercial customers located in an unincorporated Kern County area near Buttonwillow at the interchange of Interstate Route 5 and State Route 58, approximately 23 miles west of the City of Bakersfield.

The present rates have been in effect since January 1, 1980, pursuant to Resolution No. W-2585, dated October 19, 1979, which authorized a general rate increase producing \$13,320 or 37.0% additional revenue for combined water and sewer service.

DISCUSSION

The Branch made an independent analysis of I-5's summary of earnings. Appendix A shows I-5's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1992 showing the differences in revenue, expenses, and rate base.

I-5 was informed of the Branch's differing views of revenues, expenses and rate base and has stated that it accepts the Branch's estimates.

I-5 presently has one metered quantity rate for water service that covers both water and sewer service. This resolution provides separate flat rates for sewer service which vary with the size of the water meter installed for a particular customer. I-5's water rates are also being revised concurrently in a separate resolution. These changes in rate structure will produce revenues that will cover expenses and provide a return on the investment of each respective utility service. The rate increase will provide a 14.15% rate of return on the Branch's 1992 estimated rate base. The adopted return is the midpoint of the 13.9% to 14.4% range authorized

for Class D water utilities (up to 500 service connections) in the Commission's decision on the financial and operational risks of regulated water utilities (D.92-03-093, dated March 31, 1992).

An affiliate of I-5 has been charging rent for land on which the treatment plant and spray field are located. The rent represents more than a reasonable return on the original cost of the property when it was first devoted to public service. For the purpose of rate-fixing, a reasonable amount representing the original cost of the land is included in rate base in lieu of rent as an expense.

In its annual reports to the Commission, I-5 has failed to show separate figures for sewer plant, accumulated depreciation, and contributions. It has reported single combined amounts for its sewer and water operations. To prevent future inconsistencies between figures adopted by the Commission and the figures shown in I-5's annual reports, the Branch recommends that I-5 be directed to record on its books of account the sewer 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 1992 annual report to the Commission. Those balances are \$350,890 for total sewer plant in service, \$172,532 for accumulated depreciation, and \$45,948 for contributions as of December 31, 1991.

Branch engineers made a field inspection of I-5's service area on August 27, 1991. The treatment plant and spray field were found to be reasonably well maintained and efficiently operated. Service is satisfactory. There are no Commission orders requiring compliance and during the last two years, the Consumer Affairs Branch has handled no informal complaints.

A review of I-5's tariff schedules shows that they are outdated and require revision. The title page shows the name of a previous operator. Schedule No. 5, Connection Charges for Commercial and Industrial Customers, contains no charges and states that charges are subject to individual contracts. Sample Form No. 1, Water and Sewerage Service Agreement, applies only to service stations. To specify reasonable conditions under which customers can obtain service, I-5 should cancel Schedule No. 5 and the limited sample form and file the Branch recommended set of standard sewer utility rules and forms.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each of the 19 customers on August 8, 1991 and another notice to the customers on January 10, 1992. No protest letters were received by the Branch.

The Branch held a public meeting on August 27, 1991 in I-5 service area to explain how rates are set and to give I-5 an opportunity to explain the need for the proposed increase. No customer attended 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. I-5 should cancel Schedule No. 5, Connection Charges for Industrial Customers, Form 1, Form 2, and file the Branch's standard sewer utility rules its tariff schedules showing current information and practice.
5. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
6. I-5 should be required to record on its books of account the sewer 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 1992 annual report to the Commission. Those balances are \$350,890 for total sewer plant in service, \$172,532 for accumulated depreciation, and \$45,948 for contributions as of December 31, 1991.

IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Interstate 5 Utility Company, Inc. (Sewer) to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and E, respectively, and concurrently to cancel its presently effective rate Schedule No. 2 and Schedule No. 5. Its filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five (5) days after the date of filing.
2. Within ninety (90) days of the effective date of this order, Interstate 5 Utility Company, Inc. (Sewer) shall file revised tariff Rules and Forms conforming to the Water Utilities Branch's standard rules and forms for sewer utilities and concurrently cancel its presently effective Form No. 1 and Form No. 2.
3. Interstate 5 Utility Company, Inc. (Sewer) shall record on its books of account the sewer 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 1992 annual report to the Commission.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 17, 1992. The following Commissioners approved it:

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


NEAL J. SEULMAN
Executive Director

APPENDIX A

Interstate 5 Utility Company, Inc.

SUMMARY OF EARNINGS
Test Year 1992

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
Operating Revenues					
Metered	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Flat Rate	<u>72,336</u>	<u>93,216</u>	<u>80,289</u>	<u>93,216</u>	<u>83,780</u>
Total Revenue	72,336	93,216	80,289	93,216	83,780
Operating Expenses					
Power	21,255	21,255	20,720	20,720	20,720
Other Vol. Related Exp.	0	0	0	0	0
Employee Labor	0	0	11,150	11,150	11,150
Materials	5,425	5,425	1,360	1,360	1,360
Contract Work	15,092	15,092	6,320	6,320	6,320
Other Plant Maintenance	5,425	5,425	0	0	0
Office Salaries	2,137	2,137	2,140	2,140	2,140
Management Salaries	2,520	2,520	1,800	1,800	1,800
Transportation Expense	1,688	1,688	1,200	1,200	1,200
Uncollectibles	0	0	400	470	420
Office Services & Rent	18,120	18,120	300	300	300
Office Supplies	0	0	60	60	60
Professional Services	2,808	2,808	3,010	3,010	3,010
Insurance	3,492	3,492	1,300	1,430	1,340
General Expense	637	637	500	520	510
Regulatory Expense	0	0	0	0	0
Subtotal	<u>78,599</u>	<u>78,599</u>	<u>50,260</u>	<u>50,480</u>	<u>50,330</u>
Depreciation Expense	4,086	4,086	6,968	6,968	6,968
Franchise Tax	0	0	0	0	0
Property Tax	2,223	2,223	1,418	1,418	1,418
Payroll Tax	0	0	1,403	1,403	1,403
Income Taxes	800	1,926	4,636	7,546	5,419
Total Deductions	<u>85,708</u>	<u>86,834</u>	<u>64,686</u>	<u>67,816</u>	<u>65,539</u>
Net Revenue	(13,372)	6,382	15,603	25,400	18,241
Average Plant	348,420	348,420	350,890	350,890	350,890
Avg. Accum. Deprectn.	173,588	173,588	176,471	176,471	176,471
Net Plant	174,832	174,832	174,419	174,419	174,419
Less: Advances	0	0	0	0	0
Contributions	45,493	45,493	45,493	45,493	45,493
Plus: Working Cash	0	0	0	0	0
Mat'l & Suppl	0	0	0	0	0
Rate Base	129,338	129,338	128,926	128,926	128,926
Rate of Return	(loss)	4.93%	12.10%	19.70%	14.15%

APPENDIX B

Interstate 5 Utility Company, Inc. (Sewer)

Schedule No. 2

FLAT RATE SEWER SERVICE

(T)

APPLICABILITY

Applicable to all sewer service.

(T)

TERRITORY

The commercial and industrial development in the vicinity of the interchange of Interstate 5 and State Route 58, near Buttonwillow in Kern County.

(T)

(T)

RATES

Size of Water Meter Serving Premises:

(D)

Per Month

(N)

For 1-inch service	\$110.00
For 2-inch service	350.00
For 3-inch service	656.00

(N)

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(L)

(L)

APPENDIX C
Page 1

Interstate 5 Utility Company, Inc. (Sewer)

COMPARISON OF RATES

A comparison of the present and adopted rates for sewer and water services are shown below:

Presently, all sewer customers are also water customers and are charged \$1.92 for every hundred cubic feet (Ccf) of water consumed which covers the charges for both sewer and water service. The recommended rates provide separate charges for sewer and water service. Customer billing would be calculated according to the following:

Water Service Charge, per connection for the size service indicated:

	<u>Per Meter</u> <u>per Month</u>
For 1-inch meter	\$ 33.00
For 2-inch meter	105.00
For 3-inch meter	198.00

Water Quantity Charge, in addition to the above service charge:

All water delivered, per Ccf	\$ 0.26
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Flat Rate Sewer Charge, for all premises served by the size water meter indicated:

	<u>Per Month</u>
For 1-inch service	\$110.00
For 2-inch service	350.00
For 3-inch service	656.00

APPENDIX C
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Interstate 5 Utility Company, Inc. (Sewer)

COMPARISON OF RATES

The following table shows a comparison of total monthly charges for both water and sewer service for customers with various water consumption rates and sizes of water meters.

ccf	Size	Present Charge	Recommended Charge	Amount of Increase	Percent Increase
0	1"	\$ 0.00	\$ 143.00	\$ 143.00	—
50	1"	96.00	156.00	60.00	62.50
100	1"	192.00	169.00	(23.00)	(11.98)
200	2"	384.00	507.00	123.00	32.03
300	2"	576.00	533.00	(43.00)	(7.47)
400	2"	768.00	559.00	(209.00)	(27.21)
500	2"	960.00	585.00	(375.00)	(39.06)
750	3"	1,440.00	1,049.00	(391.00)	(27.15)
1,000	3"	1,920.00	1,114.00	(806.00)	(41.98)
1,250	3"	2,400.00	1,179.00	(1,221.00)	(50.88)

* * *

(End of Appendix C)

APPENDIX D
Page 1

Interstate 5 Utility Company, Inc. (Sewer)

ADOPTED QUANTITIES

Test Year 1992

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

Expenses:

1. Power:

Serving Utility:	Pacific Gas and Electric Co.:	
Rate Schedule	A-10	
Effective Date	5/1/92	
Energy Charge:		
kWh Summer	101,759	
kWh Winter	85,287	
Rate, per kWh		
Summer	\$0.09938	
Winter	0.07707	
Amount		\$16,686
Demand Charge:		
kW, Total of 12 months	531	
Rate, per kW:	\$4.75	
Amount		2,522
Customer Charge:		
No. of Meters	2	
Rate per Meter per Month	\$63	
Amount		<u>1,512</u>
Total Power:		\$20,720

2. Water Testing Expenses (in Contract Work) \$ 230

4. Insurance Expense \$ 1,340

5. Payroll, Payroll Taxes:

Employee Labor	\$11,150
Office Salaries	2,140
Management Salaries	1,800
Payroll Taxes	<u>1,403</u>
Total	\$16,493

APPENDIX D
 Page 2

Interstate 5 Utility Company, Inc. (Sewer)

ADOPTED QUANTITIES
 Test Year 1992
 (Continued)

6. Ad Valorem Taxes:

Tax Rate	1.10000%	
Assessed Valuation	\$128,910	
Total		\$ 1,418

7. Number of Services:

Premises Served by Water Meter Size:		
1-inch service	5	
2-inch service	9	
3-inch service	5	
Total		19

ADOPTED INCOME TAX CALCULATIONS

Test Year 1992

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 83,780	\$ 83,780
2.	Expenses	50,330	50,330
3.	Taxes Other Than Income	2,821	2,821
4.	Depreciation	6,968	6,968
5.	Interest	0	0
6.	Taxable Income for State Tax	<u>23,661</u>	
7.	State Tax @ 9.3% (\$800 min.)	\$ 2,200	2,200
8.	Taxable Income for Federal Tax		<u>21,461</u>
9.	Federal Tax @ 15% of 1st \$50,000		\$ 3,219
10.	Total Income Taxes	\$ 5,419	

(End of Appendix D)