

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3729
December 16, 1992

RESOLUTION

(RES. W-3729), TULCO WATER COMPANY (TWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$11,690 IN 1993.

BY DRAFT ADVICE LETTER, ACCEPTED ON SEPTEMBER 25, 1992.

SUMMARY

This Resolution grants an increase in gross annual revenue of \$11,690 or 45.4% for test year 1993. This increase will provide a 14.40% rate of return on rate base in test year 1993.

BACKGROUND

TWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on September 25, 1992, requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$10,530 or 39.2% in 1993. TWC's request shows 1993 gross revenue of \$26,900 at present rates increasing to \$37,430 at proposed rates to produce a 21.4% return on rate base. (TWC overestimated revenues at present rates. The effect was to understate the magnitude of the requested increase at proposed rates. However, the notice of proposed rate increase to customers included the correct present and proposed rates, and the differential indicates an increase of about 46%. The rates authorized herein are less than proposed.) TWC presently serves 180 permanent residential flat rate customers located in an inland valley subdivision approximately three miles east of the City of Tulare, Tulare County.

TWC is owned and managed by Bradley and Pamela Ralston, who purchased the utility in October 1992, pursuant to Decision (D-) No. 92-10-005, dated October 6, 1992. They have managed the utility out of their home since January 1991. The Ralstons also own and manage the Commission regulated EPTCO-Visalia, Buhl, and Nish Water Systems in nearby Visalia. The four water utilities are the Ralstons' primary source of income.

The present rates became effective on June 22, 1988, pursuant to Resolution W-3399 which authorized a general rate increase of 33.8%.

DISCUSSION

The Branch made an independent analysis of TWC's summary of earnings. Appendix A shows TWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1992. Appendix A also shows differences in operating revenues, operating expenses and rate base.

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

TWC's draft advice letter requested rates which it estimated would produce a 21.4% rate of return on rate base. The summary of earnings in Appendix A also shows a 14.4% rate of return at the Branch recommended rates. This rate of return is within the 13.90% to 14.40% standard rate of return range established by the Commission in D.92-03-093, for small 100% equity financed water utilities.

TWC's current rate structure is made up of two schedules: Schedule No. 1, General Metered Service and Schedule No. 2R, Residential Flat Rate Service. Although all customers are currently flat rate, the utility will begin metered service to one new customer in the test year, and it is probable that there will be more metered customers in the future. The Branch recommends that the General Metered Service schedule be modified to conform with the Commission's rate design policy and such that billings for metered and flat rate service are comparable.

The water table in the vicinity has dropped significantly during the prolonged drought. The drop appears to have been a factor in the collapse of TWC's primary well in August 1992. TWC has installed a replacement well constructed to Department of Health Services (DHS) standards. The revenue requirement of the new well was not included in the draft advice letter, but is provided for in the Branch's recommended rates. Although the drought has diminished TWC's groundwater source of supply, aggressive water conservation is not required, and the Branch does not recommend conservation measures be ordered at this time.

Water pumped from wells is untreated; however, tests over the past year have indicated the presence of Dibromochloropropane (DBCP), a known carcinogen. Although the level of DBCP does not exceed state quality standards, TWC is required by the state Office of Drinking Water to test the water and update its customers quarterly about the problem. The new well was installed with a concrete seal to 150-feet in an attempt to prevent access of DBCP contaminated water. It is scheduled to be tested for DBCP in December 1992. Should the problem persist, TWC may be required by the DHS to drill a new well or to treat the contaminated water. TWC has filed for and received recommendation from the State Office of Drinking Water for a Safe Drinking Water Bond Act Loan in the event that future DBCP tests reveal levels exceeding state quality standards.

TWC does not have a complete set of tariff sheets on file in its office. TWC should update the following tariff sheets in its tariff book on file with the Commission, and obtain a full set for use at its office:

1. Title Page.
2. Table of Contents.
3. Rule 7, Deposits; page 2.
4. Rule 9, Rendering and Payment of Bills; page 3.
5. Rule 15, Main Extensions; all pages.
6. Rule 16, Service Connections, Meters, and Customer's Facilities; all pages.

7. Rule 18, Meter Tests and Adjustment of Bills for Meter Error; page 1.
8. Rule 20, change from Fire Protection to Water Conservation.
9. Connection Fee Data Form.

The utility has filed its Annual Reports regularly. There are no outstanding Commission orders.

The Ralstons own and operate EPTCO-Visalia, Buhl, and Nish water companies as well as TWC. The four utilities share common features: they are geographically close, draw from the same groundwater aquifer, have similar customer bases, and similar operating characteristics. The Ralstons have expressed interest in merging the four utilities, and it appears to the Branch that a merger of the four utilities may be in the best interests of the utilities and their customers. The feasibility of merger should be explored in connection with the next general rate case for any of the four companies.

At the Branch's recommended rates shown in Appendix B, the bill for a typical flat rate residential customer would increase from \$11.94 per month to \$17.22 or an increase of 44.2%. A comparison of customer bills at present and Branch recommended rates is shown in Appendix C.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on October 13, 1992. No protests were received by the Branch. The Commission's Consumer Affairs Branch has received one telephone complaint against TWC over the last four years. This complaint was resolved satisfactorily.

A public meeting was held on November 4, 1992. Nine customers attended. Most were aware of the collapse of the old primary well and were satisfied with TWC's response to the crisis. The customers' concerns followed two themes: the presence of DBCP and the magnitude of the requested increase.

FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the branch is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in preparation of this report are reasonable and should be adopted.
4. The rate increase proposed by the Branch is justified; the resulting rates are just and reasonable.

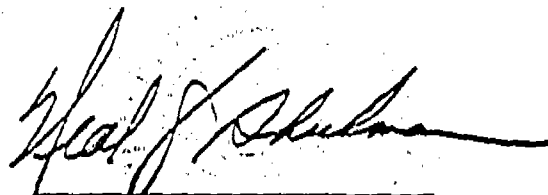
5. TWC should be required to update the following tariff sheets on file with the Commission: Title Page, Table of Contents, Rules 7, 9, 15, 16, 18, and 20, and the Connection Fee Data Form. TWC should also obtain a complete set of tariff sheets for display and reference at its office.
6. TWC should explore the feasibility of merging the operations and books of TWC, EPTCO-Visalia, Buhl, and Nish water companies and address the issue at the time of the next general rate case filing for any of these companies.
7. The rate increase authorized herein is justified, and the resulting rate is just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Tulco 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 Schedule Nos. 1 and 2R. 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. Tulco Water Company within 120 days of the effective date of this resolution shall file other tariff provisions as follows: Title Page, Table of Contents, Rules 7, 9, 15, 16, 18, and 20, and the Connection Fee Data Form.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 16, 1992. The following Commissioners approved it:

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


NEAL J. SHULMAN
Executive Director

APPENDIX A

Tulco Water Company

SUMMARY OF EARNINGS
Test Year 1993

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat	\$ 26,900	\$ 37,430	\$ 25,740	\$ 37,430	\$ 37,430
Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenue	\$ 26,900	\$ 37,430	\$ 25,740	\$ 37,430	\$ 37,430
<u>Operating Expense</u>					
Purchased Power	7,240	7,500	8,200	8,200	8,200
Employee Labor	0	0	0	0	0
Materials	1,240	1,240	1,240	1,240	1,240
Contract Work	1,140	2,000	2,000	2,000	2,000
Transportation	670	1,350	940	940	940
Other Plant Maint.	0	0	0	0	0
Office Salaries	1,200	1,250	1,250	1,250	1,250
Management Salary	8,400	8,650	8,400	8,400	8,400
Employee Pen & Ben	540	550	500	500	500
Uncollectibles	107	110	110	160	160
Office Serv & Rent	1,110	1,110	1,110	1,110	1,110
Office Sup. & Exp.	1,930	1,930	1,690	1,690	1,690
Professional Serv.	0	500	230	230	230
Insurance	1,770	1,200	1,190	1,190	1,190
General Expense	0	0	0	0	0
Reg Comm Exp	400	530	0	0	0
Subtotal	25,747	27,920	26,860	26,910	26,910
Depreciation	1,630	1,630	2,410	2,410	2,410
Taxes O/T Income	0	350	1,730	1,730	1,730
Income Taxes	1,260	1,260	0	830	830
Total Deductions	28,637	31,160	31,000	31,880	31,880
Net Revenue	(1,737)	6,270	(5,260)	5,500	5,500
<u>Rate Base</u>					
Average Plant	68,000	68,000	80,840	80,840	80,840
Avg Dep Res	38,320	39,960	40,100	40,100	40,100
Non-Operable Plnt.	0	0	3,450	3,450	3,450
Net Plant	29,680	28,040	37,290	37,290	37,290
Less Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus Working Cash	0	0	0	0	0
Mat'l & Supp	1,240	1,240	1,240	1,240	1,240
Rate Base	30,920	29,280	38,530	38,530	38,530
Rate of Return	(5.22%)	21.41%	(13.65%)	14.40%	14.40%

APPENDIX B
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Tulco Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Allen Acres, Tract No. 132 and vicinity, located 3 miles east of
Tulare, Tulare County.

RATES

Quantity Rate:	Per Meter Per Month
All water, per 100 cubic feet.....	\$ 0.12
Service Charge:	
For 5/8 x 3/4-inch meter.....	\$ 5.53
For 3/4-inch meter.....	\$ 8.37
For 1-inch meter.....	\$13.07
For 1-1/2-inch meter.....	\$16.33
For 2-inch meter.....	\$20.42

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

SPECIAL CONDITION

1. All bills are subjected to the reimbursement fee set forth on Schedule No. UF.

APPENDIX B
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Tulco Water Company

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Allen Acres, Tract No. 132 and vicinity, located 3 miles east of Tulare, Tulare County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single-family residential unit, including premises not exceeding 8,000 square feet in area.....	\$ 15.90
For each 100 square feet of area in excess of 8,000 square feet.....	\$ 0.11

SPECIAL CONDITIONS

1. The above residential flat rates apply to service connections not larger than one-inch in diameter.
2. A meter shall 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. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX C

Tulco Water Company

COMPARISON OF RATES

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

METERED SERVICE

Quantity Rates:	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
All Water, per 100 cu ft...	\$ 0.38	\$ 0.12	(68.42%)
Service Charge:	<u>Per Meter Per Month</u>		
For 5/8x3/4-inch meter	\$ 4.05	\$ 5.53	36.54%
For 3/4-inch meter	4.45	8.37	88.09%
For 1-inch meter	6.05	13.07	116.03%
For 1-1/2-inch meter	8.10	16.33	101.60%
For 2-inch meter	10.95	20.42	86.48%

RESIDENTIAL FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Proposed Rates</u>
Each single-family residence, including premises not exceeding 8,000 sq-ft. in area.....	\$10.98	\$16.04	\$15.90
For each 100 sq-ft. of area in excess of 8,000 sq-ft.....	\$ 0.08	\$ 0.11	\$ 0.11

A monthly bill comparison is shown below:
 (Representative Average Bills)

<u>Square Footage</u>	<u>Present</u>	<u>Requested</u>	<u>Recommended</u>	<u>Recommended % Increase</u>
8,500	\$ 11.38	\$ 16.59	\$16.45	44.55%
9,200 (average)	\$ 11.94	\$ 17.36	\$17.22	44.22%
9,500	\$ 12.18	\$ 17.69	\$17.55	44.09%
10,500	\$ 12.98	\$ 18.79	\$18.65	43.68%
12,500	\$ 14.58	\$ 20.99	\$20.85	43.00%
18,500	\$ 19.38	\$ 27.59	\$27.45	41.64%

Appendix D
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Tulco Water Company

ADOPTED QUANTITIES
Test Year 1993

Expenses

1. Purchased Power	
Vendor	SoCal Edison
Schedule No.	PA-1P
Effective Date	June 7, 1992
Energy Charge per KWH	\$ 0.09539
Consumption	75,565 KWH
Total Energy Charge	\$7,200.00/yr
Service Charges	\$ 700.00/yr
Customer Charges	\$ 300.00/yr
Total Cost	\$8,200.00/yr
2. Purchased Water	None
3. Payroll	
Management Salary	\$ 8,400
Office Salary	\$ 1,250
Total Payroll	\$ 9,650
4. Water Testing (in contract work)	
DBCP	\$ 300
Lead/Copper	\$ 400
Other (standard tests)	\$ 1,300
Total Water Testing	\$ 2,000
5. Insurance Expenses	
General Liability	\$ 1,000
Auto Insurance	\$ 190
Total Insurance	\$ 1,190
6. Ad Valorem Taxes	
Composite Tax Rate	1.0014%
Assessed Value	\$33,325
Total	\$ 334

Service Connections

Metered Rate Connections:	1 (2-inch)
Flat Rate Connections:	180
Average consumption/customer/month used to design rates:	34.76 Ccf

Appendix D
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Tulco Water Company

ADOPTED TAX CALCULATIONS
Test Year 1993

ITEM	State <u>Tax</u>	Federal <u>Tax</u>
1. Operating Revenue	\$37,430	\$37,430
2. O & M Expense	\$26,910	\$26,910
3. Taxes Other Than Income	\$ 1,730	\$ 1,730
4. Depreciation	\$ 2,410	\$ 2,410
5. Interest	\$ 2,730	\$ 2,730
6. Taxable Income for CCFT	\$ 3,650	
7. CCFT @ 9.3%	\$ 340	\$ 340
8. Taxable Income for FIT		\$ 3,310
9. Federal Income Tax @ 15%		\$ 490
10. Total Income Tax	\$ 830	