

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3908
February 8, 1995R E S O L U T I O N

(RES. W-3908), ALISAL WATER CORPORATION DBA ALCO WATER SERVICE (AWS). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$124,200 OR 6.2% IN 1995.

BY DRAFT ADVICE LETTER FILED ON DECEMBER 11, 1992.

S U M M A R Y

This resolution grants an increase in gross annual revenue of \$122,000 or 6.2% for test year 1994. This is an increase in revenues over the interim general rate increase granted by Resolution W-3773, dated May 19, 1993, which granted an increase of \$354,260 (26.1%). The increase will provide a rate of return on rate base of 10.72%.

B A C K G R O U N D

AWS requested 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 \$590,430 or 43.5% and provide a return on rate base of 12.23%. AWS presently serves 5,275 metered customers in the City of Salinas and vicinity in Monterey County.

The last authorized rates became effective on May 24, 1993, pursuant to Commission Resolution W-3773, which authorized an interim rate increase, subject to refund, of \$354,260 or 26.1%. This interim rate increase was granted because of critical cash flow problems and to preclude the necessity of laying off employees. The Water Utilities Branch (Branch) analysis indicated that AWS was operating at a loss. The last general rate increase was pursuant to Decision 86-08-048 and the rates were effective on August 23, 1986.

D I S C U S S I O N

Subsequent to the granting of the interim increase, AWS provided more information to the staff and negotiated the remaining issues. The major remaining issues were rate of return and the inclusion of a Supervisory Control and Data Acquisition (SCADA) System which would allow automated operation of the dispersed and remote facilities and the automatic capture and analysis of operating data. The SCADA system was originally estimated to cost \$250,000. The staff had initially recommended that the utility should file an advice letter to recover the added operation and maintenance costs for the SCADA system plus the recovery of capital and the return on investment. The

staff had also recommended a corresponding reduction in many costs to represent the savings of the SCADA system over the prior operations. AWS objected to the advice letter procedure, fearing that it would impede the securing of financing for the system. AWS also objected that the estimates of the amounts of cost savings, if any, were unknown, and the benchmark utilities used for comparison were larger, had different terrain and relied less on hydropneumatic pressure systems. Also, many of the benefits of having the SCADA system are non-monetary but provide better service and the capability of collecting usable data over greater distance. However, AWS was willing to attribute any realized savings to the SCADA system.

In the meantime, AWS has obtained financing for the SCADA system and has paid for all of the equipment. Since the system is now substantially completed and will be in full operation shortly, Branch recommends that the amount be included in plant in service.

The other major area of dispute was in rate of return. Besides believing that the rate of return should be higher than recommended by Finance Branch, AWS had totally refinanced its outstanding debt with variable rate financing. While other utilities have used variable rate financing, it's not a significant portion of their total debt issued. AWS has two loans which have interest rates that are adjusted quarterly. It is not possible to forecast the fluctuations in interest rates precisely enough to set rates for the future test years. From the initial rate of about 9.34% the rate has now increased to 10.5%. To order AWS to file advice letters quarterly would be unnecessarily burdensome and may involve filings for insignificant changes in the interest rate. As an expedient measure for this unique case, the Branch recommends that AWS track the interest rate cost in a memorandum account. The utility should be ordered to file an advice letter no more often than annually to recover balances if they exceed 2% of gross annual revenues. However, the Branch recommends that the authority to record such interest expense in the memorandum account should expire after two years to insure that utility will file for further general rate cases and allow the capital structure and reasonableness of the debt cost to be reviewed.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer as a bill insert on February 23, 1993. A total of 10 letters were received from customers protesting the rate increase and the interim increase. Subsequent to the interim increase, about three customers telephoned the branch to suggest that the utility should reduce costs rather than seek additional revenue.

At the public meeting, several customers of the former Pine Canyon Mutual Water Co. stated that AWS had promised to make many improvements to their system when the mutual water company was acquired by AWS. They claim these improvements were not made. AWS maintains that it has made all required improvements in the Pine Canyon area. In the course of this informal investigation it is not possible to determine the nature of the improvements that were contemplated ten years ago. Subsequent to this filing, a customer of the Pine Canyon area brought a formal complaint before the Commission to secure a resumption of water service and to try to settle the disputes about the improvements for the area. That is the proper forum to resolve these disputes.

At the Branch's recommended rates shown in Appendix A, the bill for a typical residential customer, using 1,400 cubic feet per month, would increase from \$18.37 to \$19.34 or 5.3%

FINDINGS AND CONCLUSIONS

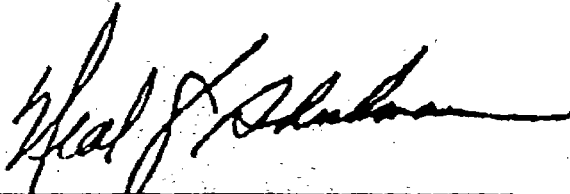
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. AWS should establish a memorandum account to track the interest costs on the variable financing.
5. AWS should be allowed to file an advice letter no more often than annually to recover the balance in the memorandum account if it exceeds 2% of gross annual revenues.
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 Alco Water Service to file an advice letter incorporating the revised Schedule No. 1, General Metered Service, attached to this resolution as Appendix B, and concurrently cancel its presently effective rate Schedule No. 1. The filing shall comply with General Order No. 96-A. The effective dates of the revised schedule and the cancellation of the current schedule shall be five days after the date of filing.
2. Alco Water Service is authorized to establish a memorandum account to track the variable debt costs. New accruals to the memorandum will expire after two years from the effective date of this Resolution.
3. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 8, 1995. The following Commissioners approved it:

DANIEL WM. FESSLER
President
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners


NEAL J. SHULMAN
Executive Director

APPENDIX A

Alco Water Service
Salinas Division

ADOPTED SUMMARY OF EARNINGS

	1995
	<u>Adopted at</u> <u>Auth.</u> <u>Rates</u>
Operating Revenues	\$2,123,300
Operating Expenses	
Pumping Power	286,900
Chemical	1,100
Management Salaries	80,900
Office Salaries	155,800
Field Salaries	218,200
Materials	33,800
Contract Work	23,500
Transportation	98,400
Other Plant Maint. Exp.	15,300
Empl. Pens. & Ben.	145,000
Office Serv. Rentals	38,700
Office Supplies	33,700
Professional Serv.	74,400
Insurance	48,700
Rate Case Expenses	5,400
General Exp.	27,100
Uncollectibles	7,400
Reimb. Exp.	<u>(16,100)</u>
Subtotal	1,278,200
Depreciation	230,900
Property Tax	36,800
Payroll Tax	39,100
Local Franchise Tax	62,000
State Income Tax	34,980
Federal Income Tax	122,180
Total Oper. Expenses	1,804,160
Net Oper. Revenues	319,140
Rate Base	2,976,600
Rate of Return	10.72%

(END OF APPENDIX A)

APPENDIX B

Alco Water Service
Salinas Division

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

City of Salinas and Vicinity, Salinas, Monterey County.

RATES

Quantity Rates:

All water, per 100 cu. ft. \$0.91 (I)

Service Charge:

	Per Meter		
	Per Month		
For 5/8 x 3/4-inch meter	\$ 6.60	(I)	
For 3/4-inch meter	9.80		
For 1-inch meter	15.25		
For 1 1/2-inch meter	29.75		
For 2-inch meter	48.00		
For 3-inch meter	88.00		
For 4-inch meter	144.00		
For 6-inch meter	295.00		
For 8-inch meter	435.00		
For 10-inch meter	610.00		(I)

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$0.96. This charge offsets the Department of Health Services fee as billed to Alco Water Service for fiscal year July 1, 1991 to June 30, 1992.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UP.

(END OF APPENDIX B)

APPENDIX C

Also Water Service

COMPARISON OF RATES

	<u>Per Meter Per Month</u>	
	Present Rates	Proposed Rates
For 5/8 x 3/4-inch meter	\$ 6.05	\$ 6.60
For 3/4-inch meter	9.05	9.80
For 1-inch meter	14.10	15.25
For 1 1/2-inch meter	27.50	29.75
For 2-inch meter	44.00	48.00
For 3-inch meter	81.00	88.00
For 4-inch meter	133.00	144.00
For 6-inch meter	270.00	295.00
For 8-inch meter	400.00	435.00
For 10-inch meter	560.00	610.00
 Quantity Rates:		
Per 100 cu. ft.	\$0.88	\$0.91

(END OF APPENDIX C)

APPENDIX D
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Alco Water Service
Salinas Division

ADOPTED QUANTITIES

	<u>1995</u>
Purchased Power:	
PG&E 1/91	
Average kWh/Ccf	1,6838
Est. Water consumption in Ccf	1,474,254
All Systems kWh	2,482,349
Comp. Unit Cost \$/kWh	0.11557
 Total Power Cost	 \$286,878
 Cost of Debt	 10.5%

SCHEDULE NO. 1

Service Charges:	
For 5/8 x 3/4-inch.	2,145
For 3/4-inch.	1,783
For 1-inch.	1,303
For 1-1/2-inch.	116
For 2-inch.	124
For 3-inch.	20
For 4-inch.	8
For 6-inch.	4
For 8-inch.	0
For 10-inch.	<u>0</u>
TOTAL	5,503

Quantities	
Ccf	1,474,254

Note: 267.9 Ccf per year per service.

APPENDIX D
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Alco Water Service

Salinas Division

INCOME TAX CALCULATION

	1995 <u>Adopted</u>
Operating Revenue	2,123,300
Expenses	
Pumping power	286,900
Chemical	1,100
Management Salaries	80,900
Office Salaries	155,800
Field salaries	218,200
Materials	33,800
Contract Work	23,500
Transportation	98,400
Other Plant Maint. Exp.	15,300
Empl. Pens. & Ben.	145,000
Office serv. rentals	38,700
Office Supplies	33,700
Professional serv.	74,400
Insurance	48,700
Rate Case Expenses	5,400
General exp.	27,100
Reimb. exp.	-16,100
Payroll Taxes	35,200
Ad Val. Tax	34,500
Uncollectibles	7,400
Local franch. tax	62,000
subtotal	1,409,900
Interest	94,800
Total Deduct.	1,504,700
State Tax Depr.	242,500
State taxable inc.	376,100
State Corp. Franch. Tax 9.3%	34,977
Federal Tax Depreciation	242,500
Less Preferred Stock Dividend	0
Net Taxable Income	358,100
Fed. Income Tax 34.12%	122,184
ITC	0
Total Federal Income Tax	122,184

APPENDIX D
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Alco Water Service
Salinas Division

	RATE BASE
	1995
RATE BASE	
Utility Plant	7,799,200
Capitalized Mgt salary	5,000
Work. Cash-Oper.	0
Work. Cash. Idlg.	87,600
Depreciation Reserve	(1,973,500)
Adv. Construction	(1,826,400)
Contribution	(921,100)
G.O. Alloc.	0
ACRS & MACRS I	(367,700)
Inv. Tax Cr.	(100,200)
Accum. Def. Taxes, Adv.	0
Accum. Def. Taxes, Contr.	273,700
Unamort. Def. Rev. CIAC	0
Avg. RATE BASE	2,976,600

(END OF APPENDIX D)