

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3921  
June 21, 1995

## RESOLUTION

(RES. W-3921), KLEIN HOMES WATER COMPANY, INC.  
(KHWC). ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING AN ADDITIONAL REVENUE OF \$17,103 OR 268%,  
IN 1995.

BY DRAFT ADVICE LETTER ACCEPTED ON MARCH 1, 1994.

SUMMARY

This Resolution authorizes a general rate increase for KHWC producing an additional \$17,103 or 268%, for test year 1995. The revenue requirement was calculated using the operating ratio method and allows for a 20% margin.

KHWC was declared a public utility by Commission Decision No. (D.) 93-12-039, dated December 17, 1993, and this is its first advice letter general rate case filing. Interim rates were adopted for KHWC on April 20, 1994, by Resolution Res. W-3844, pending review of KHWC's general rate increase request.

BACKGROUND

KHWC 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 producing an additional revenue of \$76,958 or 1,095%, for test year 1994. KHWC subsequently reduced this amount to \$64,458 or 917%, by revised rate workbook filed June 6, 1994. KHWC serves 20 metered rate domestic customers in the unincorporated foothills of San Jose, near Murillo and Ruby Avenues.

Res. W-3844, effective April 20, 1995, authorized interim rates for KHWC pending the Water Utilities Branch's (Branch) completion of an audit of KHWC's operating expenses. Res. W-3844 adopted the San Jose Water Company's (SJWC) domestic General Metered Service tariff as KHWC's interim tariff. KHWC purchases its water via a 2-inch SJWC master meter at the resale tariff rate, which is 15% below the retail rate.

DISCUSSION

The Branch made an independent analysis of KHWC's summary of earnings and issued its report dated May 1995. Appendix A shows KHWC's and the Branch's estimated summary of earnings at present, requested and adopted rates for the test year 1995. Appendix A also shows differences in operating revenues and operating expenses.

KHWC was informed of the Branch's differing views of revenues, expenses and rate base and stated that it agreed with the Branch's findings.

The Branch evaluated KHC's request using the two methodologies authorized by the Commission for Class C and D water utilities. In D.92-03-093, dated April 30, 1992, the Commission adopted the Operating Ratio Method (ORM) as an alternative to the standard Return on Ratebase Method for Class C and D utilities. Accordingly, the Branch applied these two methods to KHC's request. Since KHC's plant is old and fully depreciated, the traditional return on ratebase approach provided no revenues. The ORM provided a net revenue of \$3,701. Per D.92-03-093, the Branch must recommend the higher of the two revenue requirements to the Commission.

In February of 1982, the Commission adopted a policy of capping small water company rate increases at 100% per year. The 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.

The Branch's proposal deviates from this capping policy by recommending the full increase be granted now. The Branch believes that imposing two rate increases and then a decrease would result in more complications for this small company and its customers than was intended in the Commission policy.

KHC's filed tariffs currently contain two rate schedules; Schedule No. 1, General Metered Service and Schedule No. 4, Private Fire Protection Service.

For Schedule No. 1, the Branch allowed 80% recovery of fixed costs in the metered service charge. Though this percentage is below the 100% recovery allowed by Commission D.92-03-093, Branch and KHC both believe a 100% recovery would (1) unnecessarily burden low quantity users with a high service charge, and (2) discourage water conservation by reducing the quantity charge. The remainder of the fixed cost was then applied to the quantity charge.

Branch recommends Schedule No. 4, Private Fire Protection, be cancelled as there are no private fire hydrant customers at this time. Nor are such customers anticipated in the near future.

Branch's investigation revealed that KHC does not maintain a complaint log in accordance with General Order No. 103. Branch recommends that KHC be ordered to keep such a log.

At the Branch's recommended rates shown in Appendix B, the monthly bill for the average metered customer using 14 Ccf of water will increase from \$24.02 to \$80.81 or 236%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on February 22, 1994. No letters were received from customers in response to the notice. The Commission's Consumer Affairs Branch has received one complaint regarding company practice for KHWC in the past year.

A public meeting was held on April 30, 1994, in KHWC's service area. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. Seventeen customers attended the meeting with their primary concern being the proposed percent increase. A report on the meeting is contained in Appendix E of this resolution.

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. The rate increase authorized herein is justified, and the resulting rates are just and reasonable.
5. There is no need to continue offering service under Schedule No. 4, Private Fire Protection.
6. KHWC does not maintain a complaint log in accordance with General Order No. 103.

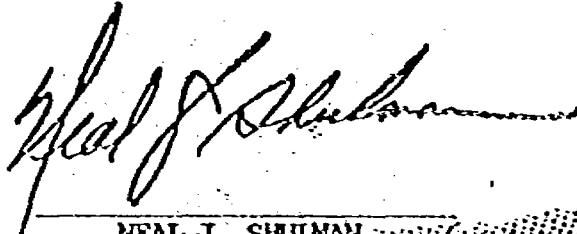
**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Klein Homes Water Company, Inc. to file an advice letter incorporating the summary of earnings and revised Schedule No. 1, General Metered Service, attached to this resolution as Appendices A and B, and to concurrently cancel its presently effective rate Schedule Nos. 1, and 4--Private Fire Protection. 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.

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Klein Homes/DR AL/RSK/jlj

2. Klein Homes Water Company, Inc. shall maintain a complaint log in accordance with General Order No. 103.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 21, 1995. The following Commissioners approved it:



NEAL J. SHUMAN  
Executive Director

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
Commissioners

**KLEIN HOMES WATER COMPANY      APPENDIX A**  
**TEST YEAR 1995**  
**SUMMARY OF EARNINGS**  
**OPERATING RATIO METHOD**

	Utility Estimated @		Branch Estimated @		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Metered Domestic	\$7,027	\$71,485	\$6,382	\$23,485	\$23,485
<b>OPERATING EXPENSES</b>					
610 - Purchased Water	\$3,951	\$3,951	\$4,378	\$4,378	\$4,378
650 - Contract Work	\$21,465	\$21,465	\$1,200	\$1,200	\$1,200
660 - Transportation	\$2,190	\$2,190	\$1,188	\$1,188	\$1,188
664 - Other Plant Maintenance	\$2,040	\$2,040	\$0	\$0	\$0
670 - Office Salaries	\$3,300	\$3,300	\$0	\$0	\$0
671 - Management Salaries	\$8,415	\$8,415	\$6,240	\$6,240	\$6,240
676 - Uncollectibles	\$20	\$20	\$20	\$20	\$20
678 - Office Services	\$726	\$726	\$0	\$0	\$0
681 - Office Supplies	\$2,710	\$2,710	\$2,067	\$2,067	\$2,067
682 - Professional Services	\$3,005	\$3,005	\$285	\$285	\$285
684 - Insurance	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
688 - Regulatory Expense	\$4,057	\$4,057	\$400	\$400	\$400
689 - General Expenses	\$5,181	\$5,181	\$1,227	\$1,227	\$1,227
<b>TOTAL OPERATING EXPENSES</b>	<b>\$58,560</b>	<b>\$58,560</b>	<b>\$18,505</b>	<b>\$18,505</b>	<b>\$18,505</b>
Depreciation	\$250	\$250	\$0	\$0	\$0
Non-Income taxes:					
Payroll:	\$0	\$0	\$602	\$602	\$602
Business License:	\$150	\$150	\$150	\$150	\$150
Total	\$150	\$150	\$752	\$752	\$752
Income Taxes					
State	\$800	\$800	\$100	\$100	\$100
Federal	\$0	\$0	\$427	\$427	\$427
<b>TOTAL TAX:</b>	<b>\$800</b>	<b>\$800</b>	<b>\$527</b>	<b>\$527</b>	<b>\$527</b>
<b>Total Expenses:</b>	<b>\$59,760</b>	<b>\$59,760</b>	<b>\$19,784</b>	<b>\$19,784</b>	<b>\$19,784</b>
Net Revenue	(\$52,733)	\$11,725	(\$13,402)	\$3,701	\$3,701
<i>Return on Margin (%)</i>	<i>-90%</i>	<i>20%</i>	<i>-72%</i>	<i>20%</i>	<i>20%</i>

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Unincorporated area of City of San José, in and near the vicinity of Klein Road and Murillo Avenue, Santa Clara County.

RATES

Quantity Rate:

All water, per 100 cu. ft. ....\$ 2.64 (I)

Service Charges:

		Per Meter Per Month	
For	3/4-inch meter .....	\$ 43.85	(D)
For	1-inch meter .....	73.10	(I)
For	1-1/2-inch meter .....	146.10	
For	2-inch meter .....	233.80	(I)
			(D)
			(D)

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

SPECIAL CONDITIONS

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

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

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

METERED SERVICE

Quantity Charge:	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>Percent Increase</u>
Per Ccf.....	\$ 1.266	\$ 2.64	109%
<u>Service Charge:</u>			
3/4-inch meter.....	\$ 6.30	\$ 43.85	596%
1-inch meter.....	\$ 10.50	\$ 73.10	596%
1-1/2-inch meter.....	\$ 26.30	\$ 146.10	456%
2-inch meter.....	\$ 42.10	\$ 233.80	455%

3/4-inch meter comparison:

<u>Monthly Usage 100 cu. ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 6.30	\$ 43.85	\$37.55	596%
10	18.96	70.25	51.29	271%
14	24.02	80.81	56.79	236% AVG
30	44.28	123.05	78.77	178%
50	69.60	175.85	106.25	153%

(END OF APPENDIX C)

APPENDIX D  
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Klein Homes Water Company

ADOPTED QUANTITIES  
Test Year 1995

Expenses

1. Purchased Water	\$4,378.00
Vendor: San Jose Water Company	
Tariff Schedule No. 6 - RESALE SERVICE effective: March 14, 1994	
2-inch service connection: (per month)	\$38.00
Quantity Rate: (purchase quantity: 3,680 Ccf)	\$1.048

Service Connections

General Metered Rate:	Number:
3/4-inch meter	8
1-inch meter	12
1-1/2-inch meter	0
2 inch meter	0
Total	20

Metered Water Sales Used to Design Rates

Domestic.....3,312 Ccf



APPENDIX D  
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Adopted Tax Quantities

Federal Tax Rate: 15%  
Delaware Corporate Franchise Tax: \$100

\* Klein Homes Water Company is incorporated in Delaware.

Federal Tax Calculation:

1. Operating and Maintenance Expense	\$18,505
2. 20% of O&M expenses	\$ 3,701
LESS:	
3. State Tax	\$ 100
4. Business License Fee	\$ 150
5. Payroll Tax	\$ 602
6. Taxable Federal Income	\$ 2,849
7. Federal Tax	\$ 427

(END OF APPENDIX D)

APPENDIX E  
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DISTRIBUTION  
Fred Curry  
Jess Sekhon  
Richard Tom

DATE: May 2, 1994

PREPARED BY: Rami Kahlon

REPORT ON THE INFORMAL PUBLIC MEETING SCHEDULED  
IN CONNECTION WITH KLEIN HOMES WATER COMPANY'S REQUEST  
FOR A GENERAL RATE INCREASE

An informal public meeting was held at the Hank Lopez Community Center in San Jose at 1:30 PM on Saturday, April 30, 1994. The meeting was called to order by Rami Kahlon at 1:35 PM.

Approximately 17 customers attended the meeting. Also present was Ms. Wilma Pribyl, owner and manager of Klein Homes Water Company. Klein Homes is a Class "D" company that serves 20 metered customers in the unincorporated San Jose foothills, near Murillo and Ruby Avenues. Pribyl performs all of the billing and accounting work for the company from her home in Ukiah. Pribyl employs one part-time person (a Klein Homes customer) to read the water meters monthly.

Klein Homes recently came under Commission jurisdiction. As a result of a complaint filed by Klein Homes' customers, D.93-12-039 (dated December 17, 1993) found Klein Homes a public utility, and ordered the utility to file tariffs within sixty (60) days. On March 1, 1994, Klein Homes filed an informal general rate increase request with the Branch. Pribyl also informed the Branch that effective April 1, 1994, she will resume operation of the company. Klein Homes has been operated by its residents for approximately the past two years.

Branch established interim tariff rates for Klein Homes in Resolution No. W-3844, dated April 20, 1994. These rates will remain in effect until Branch completes the rate increase review.

Pribyl said the rate increase is needed to cover her costs and earn a rate of return. Pribyl added that her family has operated the company for sometime in the red. Pribyl said her offer to give the company to the customers is still valid and will remain so through the rate review process. The customers did not show any apparent enthusiasm, however, to take over the company.

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The primary concern raised by customers was the dollar increase for both the service charge and the quantity charge. The present interim service charge for a 5/8" meter is \$6.30 per month and \$10.50 per month for a 1" meter. The proposed rates will increase these charges to \$155 and \$388 per month, respectively. The present quantity rate of \$1.266 is proposed to increase to \$2.38.

Customers complained that the proposed rates are unreasonable. Some said they would move if forced to pay the proposed rates. Others said that they should not have to pay now for previously deferred maintenance. Kahlon explained that the proposed rates are just that--proposed. Kahlon said that all the proposed expenses will be thoroughly analyzed. Unreasonable expense items will be rejected. Kahlon offered to send his completed engineers report to all of the homeowners.

The meeting was adjourned at 2:30 PM.

(END OF APPENDIX E)