

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3955  
December 18, 1995

R E S O L U T I O N

(RES. W-3955), LAS FLORES WATER WORKS (LFWW).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUES OF \$12,920 OR 152.2% IN  
1995.

BY DRAFT ADVICE LETTER FILED ON JANUARY 10, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$12,920, or 152.2% for test year 1995. The increase will provide a 14.14% rate of return on rate base in the test year.

BACKGROUND

LFWW requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$12,920 or 155.5% in 1994. Because LFWW's submittal was filed in 1995, the appropriate Test Year for rates to be set should have been 1995. In order not to delay the filing and to use the correct Test Year, the Water Utilities Branch (Branch) and LFWW agreed to increase the 1994 expense figures submitted by LFWW by 2.7% (the Consumer Price Index increase authorized for all Class C and D water utilities for 1994). LFWW presently serves about 63 metered customers in an unincorporated community known as Las Flores, roughly nine miles south of the city of Red Bluff, Tehama County.

The present rates became effective on March 15, 1988, pursuant to Resolution No. W-3385, which authorized a general rate increase of \$2,079 or 45.0%.

DISCUSSION

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

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

LFWW has historically applied its depreciation rate of 2.2% incorrectly to the entire plant-in-service without first removing land and intangibles, thus rendering the balance in its depreciation reserve account incorrect. The Branch reconstructed the depreciation reserve account from January 1, 1987,

and concludes that the correct 1994 end-of-year accumulated depreciation reserve balance should be \$9,227. The Branch recommends that this figure be utilized by LFWW for future calculations of the depreciation reserve and should be shown in its 1995 Annual Report to the Commission.

During the Branch's field investigation, it was observed that the LFWW well site needed weed and debris removal. The Branch added an additional \$50 per month to maintain the well sites of all three water utilities that are owned by the Patterson Trust. The pro-rated amount is included in the summary of earnings in Appendix A.

LFWW's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 17.8%. The summary of earnings in Appendix A shows a rate of return of 14.14% at the Branch's recommended rates. This rate of return is within the 14.00% to 14.50% standard rate of return range recommended for Class D water utilities by the Finance Branch of the Commission Advisory and Compliance Division. It also provides LFWW with the entire amount of increase that it requested.

In February of 1982, the Commission adopted a policy of capping small water company rate increases at 100% per year with the deferred revenues being 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 that 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's policy.

LFWW files Annual Reports regularly and there are no outstanding Commission orders requiring improvements. LFWW's tariffs are up to date.

LFWW's filed tariffs currently contain one rate schedule: Schedule No. 1, General Metered Service. Current rate design policy as set by Decision No. 92-03-093 allows LFWW to recover up to 100% of its fixed costs through the service charges. In addition, Branch guidelines call for no service charge to increase by more than twice the system average increase of 152.2%. To meet both conditions, service charge rates were increased up to 201.2% and will recover approximately 55.5% of LFWW's fixed costs.

LFWW requested revisions be made to its tariff schedules in accordance with Commission Resolution W-3940 which was issued on September 7, 1995. The revisions requested included the establishment of a late payment charge, the inclusion of Public Utilities Code Section 2714 as a special condition in its filed tariffs, and some minor changes to its rules. Since W-3940 authorized the Branch to approve these changes in compliance with the resolution, the Branch concurs with LFWW's request.

The rates proposed by the Branch are included herein as Appendix B.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a typical metered customer using 1600 cubic feet of water will increase from \$11.46 to \$28.83 or 151.6%. 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 March 20, 1995, and a second notice was hand delivered on October 13, 1995. Customers were noticed of LFWW's request for a late payment charge on November 8, 1995. The Branch received seven letters protesting the size of the rate increase and the poor water quality. The California Department of Health Services has reviewed LFWW's water quality test records and has stated that LFWW's water currently meets all health standards and is currently not experiencing any water quality problems. The Commission's Consumer Affairs Branch received one miscellaneous complaint in the last year.

A public meeting was held on Monday, April 24, 1995, near LFWW's service area. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. About nine customers attended the meeting with their primary concern being the size of the increase. There were several questions and comments which were general in nature.


#### 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. LFWW should be ordered to incorporate the Branch's depreciation reserve figure of \$9,227 as the beginning of year depreciation reserve figure in its 1995 Annual Report to the Commission.
6. LFWW is authorized to make the changes to its tariffs and rules in accordance with Resolution W-3940.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Las Flores Water Works to file an advice letter incorporating the summary of earnings, the revised Schedule No. 1, General Metered Service, and new Schedule No. 1C, Late Payment Charge, attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule No. 1. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of its filing.
2. Las Flores Water Works shall utilize the figure of \$9,227 as its depreciation reserve for the beginning of year 1995 in its 1995 Annual Report to the Commission.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 1995. The following Commissioners approved it:

  
WESLEY M. FRANKLIN  
Executive Director

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

APPENDIX A  
LAS FLORES WATER WORKS

SUMMARY OF EARNINGS - 1995 TEST YEAR

Item	1995		1995		1995
	Utility Estimated	Branch Estimated	Utility Estimated	Branch Estimated	Branch
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<b>OPERATING REVENUES</b>					
Total - Metered	\$ 8311	\$ 21231	\$ 8490	\$ 21410	\$ 21410
<b>OPERATING EXPENSES</b>					
Purchased Water	0	0	0	0	0
Purchased Power	2110	2110	2090	2090	2090
Other Volume Related	410	410	0	0	0
Employee Labor	620	620	830	830	830
Materials	210	210	210	210	210
Contract Work	300	300	300	300	300
Transportation	330	330	510	510	510
Other Plant Maint.	310	310	50	50	50
Office Salaries	0	0	0	0	0
Management Salaries	2910	2910	3420	3420	3420
Employee Pen. & Ben.	0	0	0	0	0
Uncollectibles	70	70	80	200	200
Off. Serv. & Rentals	410	410	340	340	340
Off. Suppl. & Exps.	260	260	530	530	530
Professional Services	130	130	90	90	90
Insurance	510	510	430	430	430
Reg. Commission Exp.	130	130	0	0	0
General Expense	380	380	60	60	60
<b>SUBTOTAL EXPENSES</b>	<b>9090</b>	<b>9090</b>	<b>8940</b>	<b>9060</b>	<b>9060</b>
Depreciation Expense	1341	1341	1350	1350	1350
Taxes Other Than Income	303	303	1030	1030	1030
State Taxes	0	800	800	930	930
Federal Taxes	0	1263	0	1360	1360
<b>TOTAL DEDUCTIONS</b>	<b>10734</b>	<b>12797</b>	<b>12120</b>	<b>13730</b>	<b>13730</b>
<b>NET REVENUE</b>	<b>(2423)</b>	<b>8434</b>	<b>(3630)</b>	<b>7680</b>	<b>7680</b>
<b>RATE BASE</b>					
Average Plant	61670	61670	62130	62130	62130
Avg. Depreciation Res.	15041	15041	8750	8750	8750
<b>NET PLANT</b>	<b>46629</b>	<b>46629</b>	<b>53380</b>	<b>53380</b>	<b>53380</b>
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	709	709	750	760	760
Matls. & Suppl.	180	180	180	180	180
<b>TOTAL RATE BASE</b>	<b>47518</b>	<b>47518</b>	<b>54310</b>	<b>54320</b>	<b>54320</b>
<b>RATE OF RETURN</b>	<b>(Loss)</b>	<b>17.8%</b>	<b>(Loss)</b>	<b>14.14%</b>	<b>14.14%</b>

APPENDIX B  
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LAS FLORES WATER WORKS

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Las Flores, Tehama County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
All water, per 100 cu.ft.....	\$ 1.03	(I)
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$12.35	(I)
For 3/4-inch meter .....	\$18.55	
For 1-inch meter .....	\$30.90	(I)

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

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner. (N)
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (N)

APPENDIX B  
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LAS FLORES WATER WORKS

Schedule No. IC

LATE PAYMENT CHARGE

(N)

APPLICABILITY

Applicable to all service.

TERRITORY

The unincorporated community of Las Flores, Tehama County.

RATES

Late Charge: A late charge of 1.5% on unpaid balance subject to special conditions and minimum charge below:

Minimum charge: The minimum charge is \$1.00

SPECIAL CONDITIONS

1. The balance is unpaid if it is not received by the end of the billing period. This will always provide at least 19 days to pay the bill and avoid the late charge.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.
3. This tariff shall expire eighteen months from its effective date.
4. All bills shall be subject to the reimbursement fee as set forth on Schedule No. UF.

(N)

APPENDIX C  
 LAS FLORES WATER WORKS

COMPARISON OF RATES - 1995 TEST YEAR

METERED SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
<b>Service Charge:</b>			
For 5/8 X 3/4-inch meter .....	\$ 4.10	\$12.35	201.2%
For 3/4-inch meter .....	4.50	18.55	312.2
For 1-inch meter .....	6.15	30.90	402.4
<b>Quantity Rates:</b>			
All use, per 100 cu. ft. ....	\$ 0.46	\$ 1.03	123.9%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 4.10	\$12.35	\$ 8.25	201.2%
5	6.40	17.50	11.10	173.4
10	8.70	22.65	13.95	160.3
16 (Avg.)	11.46	28.83	17.37	151.6
20	13.30	32.95	19.65	147.7
30	17.90	43.25	25.35	141.6
40	22.50	53.55	31.05	138.0
50	27.10	63.85	36.75	135.6



APPENDIX D  
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 LAS FLORES WATER WORKS

ADOPTED QUANTITIES - 1995 Test Year

Federal Tax Rate: 15.0%  
 State Tax Rate: 9.3%

Expenses

1. Purchased Power:

Pacific Gas & Electric	
Rate Schedule	A-1
Effective Date of Schedule	07/15/93
kWh Used Total	13,448
Summer	9,319
Winter	4,129
\$/kWh	
Summer	\$0.15999
Winter	\$0.10967
Energy Charge	\$ 1,944
Customer Charge	\$ 144
Energy Commission	\$ 3
Total Purchased Power	\$ 2,091

2. Ad Valorem Taxes: \$ 530  
     Tax Rate 1.00%

3. Water Testing (in contract work) \$ 263

Service Connections:

Meter Size:

5/8 X 3/4-inch .....	63
3/4-inch .....	0
1-inch .....	0
TOTAL	63

Metered Water Sales Used To Design Rates: 11,718 Ccf

APPENDIX D  
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LAS FLORES WATER WORKS

ADOPTED TAX CALCULATIONS - 1995 Test Year

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 21,410	\$ 21,410
2.	Expenses	9,060	9,060
3.	Taxes Other Than Income	1,030	1,030
4.	Depreciation Expense	1,350	1,350
5.	Interest	0	0
6.	Taxable Income for State Tax	\$ 9,970	
7.	State Tax (@ 9.3%)	\$ 930	
8.	Taxable Income for FIT		\$ 9,040
9.	Federal Income Tax (@ 15%)		\$ 1,360
10.	Total Income Tax		\$ 2,290

APPENDIX E  
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LAS FLORES WATER WORKS

Rule No. 9  
(continued)

RENDERING AND PAYMENT OF BILLS

3. Proration of bills (continued)

and the quantity in each of the several quantity rate blocks will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period. The measured quantity of usage will be applied to such prorated amounts and quantities.

(2) Flat Rate Service

The billing period charge will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period.

(3) Average Billing Period

The number of days in an average billing period is defined as 365 divided by the number of billing periods in a year. (It is 30.4 days for a monthly billing period.)

B. Payment of Bills

Bills for service are due and payable upon presentation and payment may be made at any commercial office of the utility or to any representative of the utility authorized to make collections. Collection of closing bills may be made at the time of presentation. If a customer tenders a check in payment of any bill and such check is not honored by the customer's bank, the utility may assess the customer a bad check service charge of \$5.00.

(N)  
|  
(N)

APPENDIX E  
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LAS FLORES WATER WORKS

Rule No. 3  
(continued)

APPLICATION FOR SERVICE

D. Service to a tenant

No tenant applying for residential water service shall be required to pay any charges or penalties on account of non-payment charges by a previous tenant. The company may, however, require that service to subsequent tenants be furnished on the account of the landlord or property owner.

(N)  
|  
(N)