

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3977
March 13, 1996

RESOLUTION

(RES. W-3977), MATT DILLON WATER COMPANY (MDWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$8,782 OR 21.16% IN 1995.

BY OUTREACH DRAFT ADVISE LETTER ACCEPTED ON JANUARY 25, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$8,782, or 21.16% in 1995 which consists of a \$7,460 or 17.97% increase in test year 1994 and a CPI index increase of \$1,322 or 2.7% in 1995. The increase will provide a 14.00% rate of return on rate base in the test year.

BACKGROUND

MDWC 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 \$11,930 or 28.74% in 1994. MDWC's request shows 1994 gross revenue of \$41,510 at present rates increasing to \$53,440 at proposed rates. MDWC also requested approval of proposed capital improvements, most of which were associated with the installation of an ozonation plant to reduce levels of iron and manganese in the water. The total estimated cost of the proposed improvements was \$122,500. Upon approval of the projects, MDWC plans to file an application with the Commission for authority to finance the improvements and repay the loan through a surcharge. MDWC presently provides service to approximately 142 metered customers in a service area consisting of the Diamond Bar B Ranch Subdivision, Unit 1 and vicinity, located approximately one and one-half mile southwest of Soulsbyville, Tuolumne County.

MDWC's present rates became effective on May 6, 1985, pursuant to Resolution No. W-3242 which authorized a general rate increase of \$3,780 or 30.7%.

DISCUSSION

The Water Utilities Branch made an independent analysis of MDWC's operations and issued its report in November, 1995. Appendix A shows MDWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for the test year. Appendix A also shows differences in operating revenues, operating expenses, and rate base. In addition to the differences shown in Appendix A, the Branch disagreed with MDWC's proposed capital improvements.

MDWC was informed of the Branch's differing views of revenues, expenses, rate base and proposed capital improvements and did not agree with the Branch's recommendations regarding MDWC's proposed capital improvements. The Branch and MDWC communicated back and forth for approximately three months before settling the dispute and reaching an agreement. Both parties agreed that MDWC would be allowed to recover through rates the cost to replace a storage tank cover (estimated cost of \$8,000) and sandblast and coat an existing tank (estimated cost of \$6,500). Authorization to recover costs through rates for the remaining capital improvements proposed (\$108,000), however, would have to be requested through a separate advice letter filing, after adhering to the Commission's Service Improvement Policy.

MDWC's draft advice letter requested rates that it estimated would produce a return on rate base of 13.93%. The summary of earnings in Appendix A shows a rate of return of 14.00% at Branch's recommended rates. Although this rate of return exceeds MDWC's requested rate, it falls at the lower limit of the range of 14.00% to 14.50% recommended by the Finance Branch of the Commission Advisory and Compliance Division for Class D water utilities and does not result in MDWC receiving an increase greater than it requested. Under guidelines established in Decision (D.) 92-03-093, Commission staff must calculate net revenue by both the traditional rate base/return method and the operating ratio method, selecting the method that produces the most revenue. The net revenue generated by the rate base/return method yields an operating ratio of 9.94% which both the Branch and MDWC agree is reasonable.

MDWC's filed tariffs currently contain two rate schedules: No. 1A, General Metered Service, and No. 5, Public Fire Hydrant Service. Current rate design policy as set by D.92-03-093 allows the utility to recover up to 100% of its fixed costs through the service charges. In order to meet Branch's current guideline that no customer shall receive an increase exceeding twice the system average increase authorized in this resolution, Branch's recommended metered rates shown in Appendix B limit recovery of fixed costs through service charges to 65%. Pursuant to Section 2713 of the Public Utilities Code, MDWC is prohibited from charging any rates for service under Schedule No. 5, Public Fire Hydrant Service, without a formal agreement with a local fire protection agency. Because MDWC has no such agreement, The Branch recommends that Schedule No. 5 be cancelled.

MDWC has not filed updated tariffs for its Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form.

MDWC submitted its draft advice letter rate increase request using 1994 as the test year. 1994 and 1995 are now recorded years, therefore, the Branch recommends that a CPI index increase of 2.7% for 1995 be included in the authorized rates. The rates recommended in Appendix B, therefore, reflect a 2.7% CPI index increase for 1995. The overall increase in revenue resulting from the Branch's rates recommended in Appendix B does not exceed the increase requested by MDWC.

At the Branch's recommended rates shown in Appendix B, the monthly bill for an average metered customer using 13.7 Ccf of water will increase from \$23.83 to \$28.51 or 19.63%. 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 10, 1995. The Branch received three responses to the notice protesting the magnitude of the proposed rate increase. The Commission's Consumer Affairs Branch (CAB) has received four complaints from MWC customers over the last three years. Three complaints had to do with disputed bills and one recent complaint protested the magnitude of this rate increase request.

A public meeting was held on March 9, 1995, at Summerville High School near MWC's service area. Approximately 25 customers were in attendance. The Branch's representative explained Commission rate-setting procedures, and the utility's representative explained the need for the rate increase. The main topic of discussion centered on MWC's proposed capital improvements which consisted primarily of installing an ozonation plant to remove the high concentrations of iron and manganese in the utility's water. A representative from the Tuolumne County Health Department (TCHD), who monitors MWC's water quality, informed customers that iron and manganese are secondary contaminants with Secondary Level Standards (SLS). TCHD permits secondary contaminants to exceed SLS and does not mandate reducing contaminant levels below SLS unless there is a public outcry. The customers expressed concerns about the high levels of iron and manganese in the water but also expressed a concern about the cost of the ozonation plant. There was definitely no outcry or mandate from the customers to install the ozonation plant.

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. MWC's tariff Schedule No. 5, Public Fire Hydrant Service, is no longer applicable and should be cancelled.
5. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
6. MWC should be authorized to file for an advice letter rate increase to recover costs associated with the replacement of a storage tank cover once the project is completed.

7. MWC should be authorized to file for an advice letter rate increase to recover costs associated with the sandblasting and coating of a storage tank once the project is completed.
8. MWC should be ordered to file updated Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form.
9. MWC should be allowed to file for an advice letter rate increase to recover costs associated with reducing iron and manganese levels in the system only after it has satisfied requirements and met conditions of the Commission's Service Improvement Policy.
10. MWC should be authorized a CPI increase in its 1994 rates.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Matt Dillon Water Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule No. 1A, General Metered Service. 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. Matt Dillon Water Company's filed tariff Schedule No. 5, Public Fire Hydrant Service is cancelled.
3. Matt Dillon Water Company is authorized to file an advice letter rate increase to recover costs associated with replacement of a storage tank cover once the project is completed.
4. Matt Dillon Water Company is authorized to file an advice letter rate increase to recover costs associated with the sandblasting and coating a storage tank once the project is completed.
5. Matt Dillon Water Company may file an advice letter rate increase to recover costs associated with lowering the levels of iron and manganese in the system's water only after it has satisfied the requirements and met the conditions of the Commission's Service Improvement Policy.
6. Within 60 days of the effective date of this resolution, Matt Dillon Water Company shall file updated Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form.

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Matt Dillon Water Service/DR AL/ABJ/jlj

7. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 13, 1996. The following Commissioners approved it:

Wesley Franklin

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

Matt Dillon Water Company

SUMMARY OF EARNINGS
 Test Year 1994

<u>Item</u>	<u>Utility Estimated</u>		<u>Staff Estimated</u>		<u>Staff *</u> <u>Rec'mnd</u> <u>Rates</u>
	<u>Present</u> <u>Rates</u>	<u>Requested</u> <u>Rates</u>	<u>Present</u> <u>Rates</u>	<u>Requested</u> <u>Rates</u>	
<u>Operating Revenue</u>					
Metered	\$ 41,510	\$ 53,440	\$41,510	\$ 53,440	\$ 48,970
Pub Fire Prot.	0	0	0	0	0
Total Revenues	41,510	53,440	41,510	53,440	48,970
<u>Operating Expense</u>					
Purchased Power	14,000	14,000	14,000	14,000	14,000
Employee Labor	3,390	3,390	3,390	3,390	3,390
Materials	1,930	1,930	1,840	1,840	1,840
Contract Work	2,050	2,050	1,020	1,020	1,020
Transportation	1,040	1,040	1,040	1,040	1,040
Other Plant Maint.	900	900	1,000	1,000	1,000
Office Salaries	2,840	2,840	2,840	2,840	2,840
Management Salary	2,710	2,710	2,710	2,710	2,710
Uncollectibles	200	200	200	200	200
Office Serv & Rent	600	600	600	600	600
Office Supplies	790	790	790	790	790
Professional Serv.	1,400	1,400	3,700	3,700	3,700
Insurance	3,380	3,380	3,350	3,350	3,350
Reg Comm Exp	1,400	1,400	1,400	1,400	1,400
Gen Expenses	100	100	100	100	100
Subtotal	36,730	36,730	37,980	37,980	37,980
Depreciation	7,573	7,573	2,366	2,366	2,366
Taxes other than inc.	3,630	3,630	3,105	3,105	3,105
Income Taxes	800	1,510	800	2,288	1,508
Total Deductions	48,733	49,443	44,251	45,739	44,959
<u>Net Revenue</u>	(7,223)	3,997	(2,741)	7,701	4,011
<u>Rate Base</u>					
Average Plant	222,404	222,404	199,226	199,226	199,226
Avg Dep Res	66,862	66,862	44,680	44,680	44,680
Net Plant	155,542	155,542	154,546	154,546	154,546
<u>Less Advances</u>	132,325	132,325	0	0	0
Contributions	0	0	133,792	133,792	133,792
<u>Plus Working Cash</u>	3,470	3,470	6,438	6,438	6,438
Mat'l & Supp	2,000	2,000	1,470	1,470	1,470
Rate Base	28,687	28,687	28,660	28,660	28,660
Rate of Return	(25.18%)	13.93%	(9.56%)	26.87%	14.00%

* Note: This test year 1994 Summary of Earnings does not include the CPI increase of \$1,322 for 1995. The recommended rates of Appendix B include the adjustment.

APPENDIX B
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Schedule No. 1A

GENERAL METERED SERVICES

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Diamond Bar B Ranch Subdivision, Unit No. 1, and vicinity, located approximately 1 1/2 miles southeast of Soulsbyville, Tullahoma County.

RATES

Quantity Rate:

All water, per 100 cu. ft. \$ 1.15 (I)

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter.....	\$ 8.50	
For 3/4-inch meter.....	\$ 12.75	(I)
For 1-inch meter.....	\$ 17.90	(I)
For 1-1/2-inch meter.....	\$ 42.60	(I)
For 2-inch meter.....	\$ 68.20	(I)

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

SPECIAL CONDITIONS

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

APPENDIX C

COMPARISON OF CUSTOMER BILLS

Comparison of billing at various consumption levels for a 3/4-inch metered customer in 1995 at present and recommended rates are shown below:

<u>Consumption (Ccf)</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
0.0	\$ 9.35	\$12.75	36.4
3.0	11.63	16.20	39.3
5.0	13.91	18.50	33.0
10.0	19.61	24.25	23.7
13.7	23.83	28.51	19.6
20.0	31.01	34.80	15.3

APPENDIX D
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Matt Dillon Water Company

ADOPTED QUANTITIES
Test Year 1994

Expenses

1. <u>Purchased Power</u>	
Vendor	PG & E
Schedule Nos.	A-1, A-1P, and A-6P
Effective Date	January 1, 1995
Water Production	24,320 Ccf
kWh/Ccf production	3.8922697
Consumption	94,660 kWh
Composite Rate	\$ 0.1479 per kWh
Total cost	\$14,000
2. <u>Purchased Water</u>	None
3. <u>Insurance Expense</u>	
General Liability	\$1,417
Workmen's Compensation	\$ 610
Property	\$ 90
Vehicle	\$1,225
Total	\$3,350
4. <u>Ad Valorem Taxes</u>	\$2,175
Composite Tax Rate	1.0%

Service Connections

1. Metered Service:

5/8 x 3/4-inch	0
3/4-inch	133
1-inch meter	9
1 1/2-inch	0
2-inch	0
3-inch	0
4-inch	<u>0</u>

 Total 142

2. Flat Rate Service: 0

3. Water production per customer 171 Ccf

APPENDIX D
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ADOPTED TAX CALCULATIONS
Test Year 1994

Federal Tax Rate: 15%
California corporate Franchise Rate: 9.3%
Local Franchise Rate: 0.0%

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$ 48,970	\$ 48,970
2.	O & M Expense	37,980	37,980
3.	Taxes Other Than Income	3,105	3,105
4.	Depreciation	2,366	2,366
5.	Interest	0	0
6.	Taxable Income for CCFT	5,519	
7.	CCFT @ 9.3%	800	800
8.	Taxable Income for FIT		4,719
9.	Federal Income Tax @ 15%		708
10.	Total Income Tax	\$1,508	