

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3979  
March 13, 1996

RESOLUTION

(RES. W-3979), SUSAN RIVER PARK WATER COMPANY.  
(SUSAN), ORDER AUTHORIZING AN INTERIM GENERAL RATE  
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF  
\$19,948, OR 752%, IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON NOVEMBER 7, 1995.

SUMMARY

This Resolution grants an interim increase in gross annual revenue of \$19,948, or 752%, for test year 1996. This increase will provide a 0% rate of return on rate base in the test year and will remain in effect until Susan gains 10 additional customers. At that time, Susan will be required to file a rate adjustment advice letter with the Water Utilities Branch.

BACKGROUND

Susan 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 \$28,548, or 1,076%, in 1996. Susan's request shows 1996 gross revenue of \$2,652 at present rates increasing to \$31,200 at proposed rates to produce a negative rate of return on rate base. The proposed return is negative because Susan limited the rates to \$100 per month. Susan presently serves 26 flat rate residential customers southeast of Susanville in Lassen County.

D.95-01-002, dated January 5, 1995, authorized the sale of the Susan River Park Water Company to Mr. Richard Heman. Mr. Heman purchased the water company together with approximately 12 acres of land within Susan's service area. He later subdivided the property into 24 residential lots and is currently awaiting Lassen County's final approval to sell the lots. The sale of these lots and their subsequent water connections will nearly double Susan's customer base.

The present rates were authorized by Resolution W-1841, effective on November 1, 1975, which granted a general rate increase of \$1,414 or 79%, for a 0.9% return on ratebase of \$16,544 for test year 1975.

DISCUSSION

The Water Utilities Branch (Branch) made an independent analysis of Susan's summary of earnings. Appendix A shows Susan's and the Branch's estimated summary of earnings at present, requested and adopted rates for the test year 1994. Appendix A also shows differences in operating revenues, operating expenses and rate base.

### Operating Expenses

Differences in Branch's and Susan's operating expense estimates are explained as follows. For Purchased Power, Susan assumed that both its wells, including its new 60 HP pump well (well #2), would be in service in the test year. As of this date, well #2 is not in operation and Branch believes it will remain off throughout the test year. As such, Branch's estimate for purchased power is based on well #1 only. Branch estimates \$500 for the Other Volume Related expense account.

For the Employee Labor account, Susan requested \$12,480 for a part-time employee to work 52 hours per month at \$20 per hour. Branch found that no employees are warranted for a company of Susan's size. Instead, Branch recommends that Susan be allowed \$3,000 annually for a part-time person to work on a contract basis. Branch recommends an additional \$2,000 for the Contract Work account for routine repairs and water testing--for a total of \$5,000. For the Materials account, Susan requested \$3,000 without any justification. Branch believes \$500 as reasonable for this account.

For the Transportation expense account, Susan estimates \$4,350 for the test year based on its past expenses. Branch recommends \$1,000 for this account and notes that Susan's ratepayers should not be obligated to pay the owner's travel expenses from another state--Mr. Herman resides in Oregon.

For the Other Plant Maintenance account, Susan estimates \$960 for the test year without providing any justification. Branch recommends \$0 for this account. For Office Services, Susan requests \$2,400 for the test year. Susan's bookkeeper performs the monthly billings and estimates that she bills the company approximately \$100 per month. Accordingly, Branch recommends \$1,200 for this account. For Office Supplies, Branch recommends \$250.

For Professional Services and Insurance, Branch concurs with Susan's estimates of \$500 and \$2,400, respectively. For Regulatory Commission Expense, Branch recommends a total of \$1,200, or \$400 per year amortized over three years. For General Expenses, Susan estimated \$2,800 without any justification. Branch finds \$500 per year reasonable for this account.

### Rate Base

For his 24 lot subdivision, Mr. Herman installed a new well with a back-up diesel generator, new 6-inch main lines and fire hydrants, and connected these new facilities to the existing water system--thus eliminating Susan's dead-ends, providing Susan with a second source of water, and giving Susan a back up power supply. These improvements made water service more reliable for Susan's existing customers. With the exception of some minor well repairs, Mr. Herman made no other repairs to the existing water system.

Mr. Herman estimates that he spent \$196,976 over a two year period (1994 and 1995) for the new water facilities. He contends that the improvements directly benefit his existing customers and therefore should be considered as investment in plant by Susan instead of as developer contributions.

Branch disagrees. The bulk of these new facilities were installed to provide water service to Mr. Herman's 24 lot subdivision. While they have helped to improve the water service of the existing customers, Susan was already meeting

the health and safety requirements of Department of Health Services' Division of Drinking Water (DHS). In a letter to the Branch dated September 7, 1995, DHS states that Susan was under no mandate to make the improvements and was operating "in compliance with all Safe Drinking Water Act standards" prior to the improvements made by Mr. Herman.

Branch analyzed the facilities installed by Mr. Herman and their respective costs. Branch estimates that Mr. Herman spent \$53,817 in 1994 and \$119,244 in 1995 (a total of \$173,061) on the water system. In recognition that (1) a small portion of these expenses were spent on old well #1 and (2) that the new subdivision water improvements provide a benefit to the existing customers, Branch recommends that 15% of the amount spent on the subdivision's water system, or \$8,073 in 1994 and \$17,877 in 1995, be considered as investment in plant by Susan, with the remaining amount booked as contributions by Mr. Herman to Susan.

Susan proposes a depreciation rate of 10%. Branch believes a 3% rate to be more reasonable for water plant depreciation. For Materials and Supplies, Branch recommends \$0 since Susan contracts out all of its repair work.

Appendix C, page 2, contains Branch's complete rate base calculation and recommendations.

#### Interim Rate Increase

Branch recommends that Susan be granted an interim rate increase at this time with a return on ratebase of 0%.

Even though staff and the utility do not agree on these estimates, an interim increase is warranted, and, the Service Guarantee Plan authorizes it. Susan expects to add 24 new services in the near future. This would double Susan's customer count and allow costs to be spread among more customers--resulting in a decrease in rates. Susan, however, is not expecting these new customers to come on line in the test year. Although the lots have been ready for sale for several months, Mr. Herman has yet to obtain Lassen County's final approval to sell the lots. Apparently Mr. Herman and Lassen County officials have a dispute concerning a Mello-Roos district for the subdivision.

When this issue is finally settled, Branch expects the vacant lots to be sold. Branch recommends that Susan be required to file a rate adjustment advice letter when (1) at least 10 of the lots have water service, and (2) again when all 24 lots are on line. The addition of new customers will lower Susan's overall water rates as Susan's variable water costs are stable. Any rate changes should be interim until the final customer growth is achieved.

Susan's filed tariffs currently contain three rate schedules: Schedule No. 1, General Metered Service; Schedule No. 2R, Residential Flat Rate Service; Schedule No. 5, Public Fire Hydrant Service. Susan, however, only serves flat rate services and does not have any metered or public hydrant customers. Branch recommends that Susan cancel its unused tariffs.

At the Branch's recommended rates shown in Appendix B, the monthly bill for Susan's customers will increase from \$8.50 to \$72.00, or 747%. Branch notes

that for about the past ten years Susan's customers have been voluntarily paying \$20 per month, instead of the \$8.50 tariff rate. The adopted quantities, rate base calculations, and income tax computations are shown in Appendix C.

#### NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on November 7, 1995. One letter was received protesting the proposed increase in response to the notice. The Commission's Consumer Affairs Branch has received one complaint since January 1993.

A public meeting was held on November 29, 1995 in Susan's service area. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. Eighteen customers attended the meeting with their primary concern being the proposed percent increase and water quality. A report on the meeting is contained in Appendix D 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 C) used to develop the Branch's recommendations are reasonable and should be adopted.
4. Susan should be authorized to eliminate Tariff Schedules No. 1 and No. 5 from its tariffs and file revised Title Page, Schedule UF, Rules 1, 5, 8, 10, 11, 15, 16, 17, 19, 20, 21, Forms 3, 4, 10, A, B, C, D, E, the Uniform Fire Hydrant Agreement, and the Connection Fee Data Form.
5. Susan should be required to file for a rate adjustment when at least ten (10) additional customers are on line, and again when all 24 lots are receiving water service from Susan.
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 Susan River Park Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1, 2R, and 5. Its filing shall comply with General Order 96-A.

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Susan River Park/DR AL/RUT/RSK:jlj


The effective date of the revised schedules shall be five days after the date of filing.

2. Within 60 days of the effective date of this resolution, Susan River Park Water Company shall file updated Title Page, Schedule UF, Rules 1, 5, 8, 10, 11, 15, 16, 17, 19, 20, 21, Forms 3, 4, 10, A, B, C, D, E, the Uniform Fire Hydrant Agreement, and the Connection Fee Data Form.

3. Susan River Park Water Company shall file for advice letter rate adjustment when it serves at least 10 additional customers, and again when all 24 new lots are receiving water service.

4. 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 M. FRANKLIN  
Executive Director

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

	Utility Estimated @		Branch Estimated @		Adopted Revenues
	Present Revenues	Proposed Revenues	Present Revenues	Proposed Revenues	
Flat	\$ 2,652	\$ 31,200	\$ 2,652	\$ 22,600	\$ 22,600
<b>Operating Expenses</b>					
615-Purchased Power	\$ 4,500	\$ 4,500	\$ 1,218	\$ 1,218	\$ 1,218
618-Other Volume related	\$ 2,700	\$ 2,700	\$ 500	\$ 500	\$ 500
630-Employee Labor	\$ 12,480	\$ 12,480	\$ -	\$ -	\$ -
640-Materials	\$ 3,000	\$ 3,000	\$ 500	\$ 500	\$ 500
650-Contract Work	\$ 5,400	\$ 5,400	\$ 5,000	\$ 5,000	\$ 5,000
660-Transportation	\$ 4,350	\$ 4,350	\$ 1,000	\$ 1,000	\$ 1,000
664-Other Plant Maintenance	\$ 960	\$ 960	\$ -	\$ -	\$ -
671-Management Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
676-Uncollectibles	\$ -	\$ -	\$ -	\$ -	\$ -
678-Office Services	\$ 2,500	\$ 2,500	\$ 1,200	\$ 1,200	\$ 1,200
681-Office Supplies	\$ -	\$ -	\$ 250	\$ 250	\$ 250
682-Professional Services	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
684-Insurance	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400	\$ 2,400
688-Regulatory Expense	\$ 425	\$ 425	\$ 400	\$ 400	\$ 400
689-General Expense	\$ 2,800	\$ 2,800	\$ 500	\$ 500	\$ 500
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 42,015</b>	<b>\$ 42,015</b>	<b>\$ 13,468</b>	<b>\$ 13,468</b>	<b>\$ 13,468</b>
Depreciation	\$ 23,400	\$ 23,400	\$ 6,332	\$ 6,332	\$ 6,332
<b>Non-Income Taxes</b>					
Ad Valorem	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Payroll	\$ 1,435	\$ 1,435	\$ -	\$ -	\$ -
Business License	\$ 1,600	\$ 1,600	\$ 800	\$ 800	\$ 800
<b>Total</b>	<b>\$ 4,235</b>	<b>\$ 4,235</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>
<b>Income Taxes</b>					
Slate	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800
Federal	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Tax:</b>	<b>\$ 800</b>	<b>\$ 800</b>	<b>\$ 800</b>	<b>\$ 800</b>	<b>\$ 800</b>
<b>TOTAL EXPENSES</b>	<b>\$ 70,450</b>	<b>\$ 70,450</b>	<b>\$ 22,600</b>	<b>\$ 22,600</b>	<b>\$ 22,600</b>
<b>NET REVENUE</b>	<b>\$ (67,798)</b>	<b>\$ (39,250)</b>	<b>\$ (19,948)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>RATE BASE</b>					
Average Plant	\$234,000	\$234,000	\$211,061	\$211,061	\$211,061
Average Depreciation Reserve	\$ 42,800	\$ 42,800	\$ 17,457	\$ 17,457	\$ 17,457
Net Plant	\$191,200	\$191,200	\$193,604	\$193,604	\$193,604
Less					
Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ -	\$ -	\$141,316	\$141,316	\$141,316
Plus					
Working Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Materials and Supplies	\$ 1,500	\$ 1,500	\$ -	\$ -	\$ -
<b>Rate Base</b>	<b>\$192,700</b>	<b>\$192,700</b>	<b>\$ 52,288</b>	<b>\$ 52,288</b>	<b>\$ 52,288</b>
<b>Rate of Return</b>	<b>negative</b>	<b>negative</b>	<b>negative</b>	<b>0%</b>	<b>0%</b>

APPENDIX B

Schedule No. 2R  
RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The area known as Susan River Park Nos. 1, 2 and 3, and vicinity, located approximately 4 miles southeast of Susanville, Lassen County. (T)

RATES

Per Service Connection  
Per Month

For a single-family residential unit,  
including premises not exceeding 9,000  
sq. ft. in area.....\$72.00 (I)  
(D)  
|  
(D)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1-inch in diameter. (D)  
(D)
2. All bills are subject to the reimbursement fee as set forth in Schedule No. UF. (N)  
(N)

APPENDIX C  
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Susan River Park Water Company

ADOPTED QUANTITIES  
Test Year 1996

Expenses

1. Purchased Power Total: \$1,218.

Vendor: Lassen Municipal Utility District

Breakdown:

Schedule No.	Commercial
Effective Date	1988
Service Charge	\$3.50 per month
Energy Charge	\$0.11 per kWh

SITE: Well # 1 - 15 HP & 5 HP	
TY kWh	10,687
Power Cost	\$1,218

NOTE: Well #2 (60 HP) is not yet on line and the above power cost estimate does not include it.

2. Pump Tax	\$ 800.
3. Insurance Expense	\$ 2,400.
4. Ad Valorem Taxes	\$ 1,200.

Service Connections

Flat Rate: 26

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

FLAT RATE SERVICE

	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>Percent Increase</u>
Per Month.....	\$ 8.50	\$ 72.00	747%



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 Susan River Park Water Company  
 Adopted Rate Base Quantities

	1994	1995	TEST YEAR 1996
<b>PLANT IN SERVICE</b>			
BOY Balance	\$38,000	\$91,817	\$211,061
Additions	\$53,817	\$119,244	\$0
CWP	\$0	\$0	\$0
Retirements	\$0	\$0	\$0
EOY Balance	\$91,817	\$211,061	\$211,061
Average	\$64,909	\$151,439	\$211,061
Depreciation Rate	3.000%	3.000%	3.000%
LESS:			
AVG LAND	\$10,625	\$21,250	\$21,250
AVG INTANGIBLES	\$0	\$0	\$0
Depreciation Expense	\$1,947	\$4,543	\$6,332
<b>ACCUMULATED DEPRECIATION</b>			
BOY Balance	\$7,801	\$9,748	\$14,291
Depreciation Expense	\$1,947	\$4,543	\$6,332
EOY Balance	\$9,748	\$14,291	\$20,623
Average	\$8,775	\$12,020	\$17,457
<b>CONTRIBUTION BALANCE</b>			
BOY Balance	\$0	\$45,058	\$143,523
Additions	\$45,744	\$101,357	\$0
Amortization	\$686	\$2,893	\$4,413
EOY Balance	\$45,058	\$143,523	\$139,110
Average	\$22,529	\$94,291	\$141,316
<b>CONTRIBUTED PLANT</b>			
BOY Balance	\$0	\$45,744	\$147,101
Additions	\$45,744	\$101,357	\$0
EOY Balance	\$45,744	\$147,101	\$147,101
Average	\$22,872	\$96,423	\$147,101
Amortization	\$686	\$2,893	\$4,413
<b>RATE BASE</b>			
Average Plant	\$64,909	\$151,439	\$211,061
Average Accum Dep	\$8,775	\$12,020	\$17,457
Net Plant	\$56,134	\$139,419	\$193,604
LESS:			
Advances	\$0	\$0	\$0
Avg Cont Balance	\$22,529	\$94,291	\$141,316
PLUS:			
Working Cash	\$0	\$0	\$0
M+S	\$0	\$0	\$0
Rate Base	\$33,605	\$45,129	\$52,287

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Susan River Park Water Company  
ADOPTED TAX QUANTITIES

Federal Tax Rate: 15%  
California Corporate Franchise Rate: 9.3%

ITEM	State Tax	Federal Tax
1. Operating Revenue	\$22,600	\$22,600
2. O & M Expense	\$13,468	\$13,468
3. Taxes Other Than Income	\$ 2,000	\$ 2,000
4. Depreciation	\$ 6,332	\$ 6,332
5. Taxable Income for CCFT	\$ 800	
6. CCFT @ 9.3% or \$800 minimum	\$ 800	
7. Taxable Income for FIT		\$ 0
8. Federal Income Tax @ 15%		\$ 0
9. Total Income Tax	\$ 800	

APPENDIX D  
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Susan River Park Water Company

DISTRIBUTION:  
F. L. Curry, Chief  
J. S. Sekhon, Supervisor  
R. S. Kahlon, Engineer

PREPARED BY:  
Richard Tom  
Date: December 4, 1995

MEMORANDUM OF PUBLIC MEETING

Subject: Informal Public Meeting Concerning General Rate Increase  
Request by Susan River Park Water Company.

Held at: Conference Room  
Best Western Trailside Inn  
2785 Main Street  
Susanville, CA

Date: November 29, 1995

Time: 6:30 p.m.

Present:

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
Richard Tom	Project Manager	CPUC Staff
Richard Herman	Owner	Susan River Park

Notice of the meeting was mailed to the ratepayers prior to the meeting date. Some customers claimed that they did not receive the notice, but only heard of the meeting through their neighbors. Mr. Herman claimed that he mailed the notices to the mailing addresses of all the customers.

The meeting began at about 6:45 p.m. with approximately 18 customers present. Some of the customers said others had left since the meeting was scheduled to start at 6:30 p.m.

The Commission procedure and purpose of the meeting was explained by the staff project manager. Mr. Herman did not make a presentation to explain the need for the increase since it was apparent that all the customers present were aware of Mr. Herman's proposals.

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There were many complaints about the quality of the water. Two customers brought bottles of water which they said were samples of the water they used. The water appeared to be contaminated, but there was no indication of where the water was collected. There were several other complaints that were general in nature, but the customers were unanimous in their belief that Mr. Heman was requesting the new rates to help pay for extending the water system to serve a new subdivision. Mr. Heman denies this and claims that all of the new work was required by governmental agencies.

Another major source of complaint revolved around the contention that Mr. Heman's contractor had taken large amounts of water from a hydrant; so much that it affected the quality and quantity of water that was available to the customers. The Fire Chief stated that he filled his tanker truck only once. He also indicated that the system had a flow of 750 gpm, which fulfilled the local requirements, but that he had "problems" with Mr. Heman. Mr. Heman stated that the water "was his" and that he could do what he wanted with it.

The current tariff rate is \$8.50 per month and has been in effect since 1975; however, the customers are being charged \$20 per month and have been for many years. Several customers requested refunds be made since they are being overcharged.

Two letters were received from the customers. One included photographs showing allegedly poor maintenance of the water system and also copies of correspondence which the author claimed proved that none of the new additions to the water system were mandated by any governmental agency.

The meeting was adjourned at approximately 8:30 pm. Both the staff and the utility representatives remained to answer individual questions.