

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3980*
April 10, 1996

R E S O L U T I O N

(RES. W-3980), LITTLE BEAR SEWER COMPANY (LBSC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$102,822 OR 180.46%
IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON JULY 27, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$102,822, or 180.46% for test year 1996. The increase will provide a 13.25% rate of return on rate base in the test year. Because of the significant rate shock a 180.46% rate increase will have on customers, one-half of the increase or \$51,411 will be granted immediately and the remaining \$51,411 on January 1, 1997.

BACKGROUND

LBSC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for sewer service to produce additional revenues of \$111,387 or 198.6% in 1996. LBSC's request shows 1996 gross revenue of \$56,100 at present rates increasing to \$167,487 at proposed rates. LBSC presently provides service to approximately 397 customers in portions of Pine Canyon, and vicinity, located 3 miles southwest of King City, Monterey County.

LBSC's last general rate increase was approved on February 11, 1987, by Resolution W-3347, which authorized an increase of \$2,124 or 8.5% in 1987.

DISCUSSION

The Water Utilities Branch (Branch) made an independent analysis of LBSC's operations and issued its report in March, 1996. Appendix A shows LBSC'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.

LBSC was informed of the Branch's differing views of revenues, expenses, and rate base and stated that it accepts the Branch's estimates.

LBSC's draft advice letter requested rates that it estimated would produce a return on rate base of 13.64%. The summary of earnings in Appendix A shows a rate of return of 13.25% at Branch's recommended rates. Under new rules

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adopted in Commission Decision No. (D.) 92-03-093, recommended rate of return ranges were established for Class C and D water utilities. These recommended ranges are to be updated annually by the Finance Branch of the Commission Advisory and Compliance Division. Although the recommendations are related to water utilities, Branch believes they are appropriate for sewer utilities. Therefore, Branch's recommended rate of return of 13.25% is the midpoint of the updated allowable range of 13.00% to 13.50% currently recommended by the Finance Branch for Class C water utilities. Under guidelines established in D.92-03-093, Commission staff must calculate net revenues by both the rate base/return method and the operating ratio method, selecting the method that produces the most revenue. Using a 20% operating ratio in the operating ratio method calculation, the rate base/return method produces the greater revenue in this case.

LBSC's filed tariffs currently contain one rate schedule: No. SS-1, Residential Sewer Service. Because of the large increase recommended by the Branch (180.46%), the rate shock on customers will be significant. In view of this, Branch recommends that half of the increase or \$51,411 be authorized now with the balance (\$51,411) authorized on January 1, 1997. LBSC concurs. The rates proposed by the Branch are reflected in Appendix B.

The adopted quantities and tax calculations are shown in Appendix D.

As with many Class C and D water and sewer utilities under Commission jurisdiction, LBSC's owners are also developers in the area. The area of concern in an owner/developer relationship is the assurance that utility customers are not subsidizing development in the area. The Branch's investigation in this matter found main extensions to comply with Rule 15 (Main Extension Rule) with no evidence of conflict of interest with utility subsidizing development in the service area. LBSC owners also own a Mobilehome Park within the utility's service area with utility employees working part-time for the Mobilehome Park. Branch's investigation found no comingling of funds between the Mobilehome Park and LBSC operations and no evidence of conflict of interest in which the utility is subsidizing Mobilehome Park operations.

At the Branch's recommended rates shown in Appendix B, a residential customer's monthly bill will increase from \$11.96 to \$22.75 or 90.2% immediately and then further increase from \$22.75 to \$33.54 or 90.2% on January 1, 1997. This comparison is shown in Appendix C.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on November 14, 1995. The Branch received twelve letters protesting the magnitude of the rate increase requested. The Commission's Consumer Affairs Branch (CAB) has received one complaint since 1991. CAB categorized the complaint as "line extension". The complaint was made in 1995 by a construction company and not a residential customer.

A public meeting was held on Tuesday, December 5, 1995, at the Orradre Building of the Salinas Valley Fairgrounds in King City. The Branch's representative explained Commission rate-setting procedures and the utility's representative explained the need for the rate increase. Approximately 150 customers attended the meeting. Customers expressed concerns in several areas which included the magnitude of the increase, conflict of interest issues due to the sewer company owners also being property developers in the area and specific problems with various expenses declared by the utility in its request. The Branch representative assured customers that its investigation into the rate increase request would consider all of the customers' concerns. Customers also complained that they hadn't had enough time to fully prepare for the meeting and requested that a second meeting be held. To satisfy this concern, the Branch conducted a second public meeting on February 6, 1996. Comments and concerns expressed by customers at the second meeting were the same as those expressed at the December 5, 1995 meeting.

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. Because of the significant rate shock due to the high increase being authorized, half of the increase or \$51,411 should be authorized now and the balance (\$51,411) on January 1, 1997.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Little Bear Sewer Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendix B and concurrently to cancel its presently effective rate schedule: No. SS-1, General Sewer 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.

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LBSC/DR AL/ABJ/TAC/EYC:jlj

2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 10, 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

Little Bear Sewer Company

SUMMARY OF EARNINGS
Test Year 1996

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present Rates :	: Requested Rates :	: Present Rates :	: Requested Rates :	
Metered Rate	\$ 56,100	\$167,487	\$ 56,977	\$159,799	\$159,799
Total Revenue	\$ 56,100	\$167,487	\$ 56,977	\$159,799	\$159,799
<u>Operating Expenses</u>					
Power	18,850	18,850	17,000	17,000	17,000
Labor	15,038	15,038	15,000	15,000	15,000
Materials	2,575	2,575	2,000	2,000	2,000
Contract Work	4,223	4,223	3,500	3,500	3,500
Transportation	1,494	1,494	1,150	1,150	1,150
Plant Maintenance	1,159	1,159	1,159	1,159	1,159
Office Salaries	7,828	7,828	7,800	7,800	7,800
Management's Salaries	9,270	9,270	9,270	9,270	9,270
Officer's Salaries	6,798	6,798	1,854	1,854	1,854
Uncollectible Accounts	465	465	210	210	210
Office Svcs. and Rent	4,120	4,120	4,000	4,000	4,000
Office Supplies/Expenses	2,926	2,926	2,550	2,550	2,550
Professional Services	4,017	4,017	3,500	3,500	3,500
Insurance	9,005	9,005	8,160	8,160	8,160
Regulatory Expense	1,000	1,000	1,500	1,500	1,500
General Expense	206	206	150	150	150
Subtotal	\$ 88,974	\$ 88,974	\$ 78,803	\$ 78,803	78,803
Depreciation	\$11,053	\$11,053	\$11,510	\$11,510	11,510
Payroll Taxes	3,557	3,557	2,938	2,938	2,938
Property Taxes	2,923	2,923	3,329	3,329	3,329
Permits	980	980	980	980	980
County Franchise Tax	1,122	3,350	3,101	3,196	3,196
State Income Tax	320	5,171	320	4,956	4,956
Federal Income Taxes	0	11,598	0	12,152	12,152
Total Deductions	\$108,929	\$127,606	\$100,981	\$117,864	\$117,864
Net Revenue	(52,829)	39,881	(44,004)	41,935	41,935
<u>Rate Base</u>					
Average Plant	\$609,920	\$609,920	\$625,171	\$625,171	625,171
Average Dep. Reserve	189,224	189,224	180,321	180,321	180,321
Net Plant	420,696	420,696	444,850	444,850	444,850
Less: Contributions	201,500	201,500	201,500	201,500	201,500
Plus: Accum Amort CIAC	73,140	73,140	73,140	73,140	73,140
Rate Base	\$292,336	\$292,336	\$316,490	\$316,490	316,490
Rate of Return	(loss)	13.64%	(loss)	13.25%	13.25%

APPENDIX B
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Schedule No. SS-1

RESIDENTIAL SEWER SERVICE

APPLICABILITY

Applicable to all residential sewer service.

TERRITORY

Royal Estates Unit No.3 and vicinity, Monterey County.

RATES

	Per Service Connection Per Month	Effective Eff. 4/15/96	Effective 01/01/97	Monthly Surcharge 1/
1. For a single residential unit.....	\$ 22.75 (I)	\$33.54 (I)	\$1.07	
a. For each additional single- family unit on the same premise and served from the same service connection	\$ 22.75 (I)	\$33.54 (I)	\$1.07	

SPECIAL CONDITIONS

1. The above rates apply to a service connection not larger than four inches in diameter.

SURCHARGE

NOTE:

- 1/ This surcharge is in addition to the regular monthly sewage bill. This surcharge must be identified on each bill. The surcharge is specifically to recover costs booked under the Memorandum account for Unanticipated Repair Costs of Repairs due to the damages caused by the March 10 and 11, 1995 flood authorized by Decision No. 92-03-093.

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Schedule No. SS-1

RESIDENTIAL SEWER SERVICE

APPLICABILITY

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

TERRITORY

Royal Estates Unit No.3 and vicinity, Monterey County.

RATES

Per Service Connection
Per Month

January 1, 1997

1. For a single residential unit.....\$ 10.79 (I)
 - a. For each additional single-family unit on the same premise and served from the same service connection.....\$ 10.79 (I)

SPECIAL CONDITIONS

1. The above rates apply to a service connection not larger than four inches in diameter.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

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

Per Service Connection Per Month:

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single residential unit...	\$11.96	\$22.75	90.2%

As of January 1, 1997:

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single-residential unit....	\$11.96	\$33.54	180.4%

(END OF APPENDIX C)

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Little Bear Sewer Company

ADOPTED QUANTITIES
Test Year 1995

Expenses:

1. Purchased Power (Electric)

Vendor	Pacific Gas and Electric
Schedules	A-1 P
Effective Date	1/1/95
Total Cost (\$)	17,000
kwh Used	
A-1 P Customer Charge (per meter/month)	\$12.00
\$/kwh Used (Summer rate)	\$ 0.14870
\$/kwh Used (Winter rate)	\$ 0.10193

2. Purchased water None

3. Insurance Expenses

Liability/Property	\$ 6,167
Surety Bond	\$ 100
Workers Compensation	\$ 1,138
Auto Insurance	\$ 755
Total Cost	\$ 8,160

4. Ad Valorem Taxes

Composite Tax Rate	\$ 3,329
	1.049370%

5. Payroll Taxes

FICA	\$ 2,938
Federal Unemployment	2,548
State Unemployment	82
	308

Service Connections:

397

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Little Bear Sewer Company

ADOPTED TAX CALCULATIONS
Test Year 1995

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$159,799	\$159,799
2.	O & M Expenses	\$78,803	\$78,803
3.	Taxes Other Than Income	\$10,443	\$10,443
4.	Depreciation	\$11,510	\$11,510
6.	Taxable Income for State Tax	\$59,043	
7.	State Tax*	\$ 4,956	
8.	Taxable Income for FIT		\$54,087
9.	Federal Income Tax*		\$12,152
10.	Total Income Tax		\$17,108

California Corporate Franchise Rate 9.3%

Federal Income Tax Rates
On first \$50,000 of taxable income 15%
On next \$25,000 of taxable income 25%
On next \$25,000 of taxable income 34%
On next \$235,000 of taxable income 39%

*** Both State and Federal Taxes are calculated as 40% of income taxes for a combination of LBSC and LBSC.

(END OF APPENDIX D)