

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3981**
April 10, 1996

R E S O L U T I O N

(RES. W-3981), LITTLE BEAR WATER COMPANY (LBWC),
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$106,361 OR 75.1% IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON JULY 27, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$106,361, or 75.1% for test year 1996. The increase will provide a 13.25% rate of return on rate base in the test year.

BACKGROUND

LBWC 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 \$140,770 or 100.4% in 1996. LBWC's request shows 1996 gross revenues of \$140,220 at present rates increasing to \$280,990 at proposed rates. LBWC also requested to reduce its Safe Drinking Water Bond Act (SDWBA) loan surcharge by 50% due to an increase in the number of customers since the SDWBA improvements were made. LBWC presently provides service to approximately 612 metered customers in portions of Pine Canyon, and vicinity, located 3 miles southwest of King City, Monterey County.

LBWC's last general rate increase was approved on July 24, 1985, by Resolution W-3266, which authorized an increase of \$22,020 or 38% in 1985, \$7,750 or 9.7% in 1986, and \$2,470 or 2.8% in 1987.

DISCUSSION

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

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

LBWC's draft advice letter requested rates that it estimated would produce a return on rate base of 13.3%. The summary of earnings in Appendix A shows a rate of return of 13.25% at Branch's recommended rates. This rate of return is the midpoint of the range of 13.00% to 13.50% recommended by the Finance Branch of the Commission Advisory and Compliance Division for Class C water

**

utilities. Under guidelines established in Commission 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. Using a 20% operating ratio in the operating ratio method calculation, the rate base/return method produces the greater revenue in this case.

LBWC has not filed updated tariffs for its Title Page, Rules 5, 8, 10, 11, 20, and 21.

LBWC's filed tariffs currently contain three rate schedules: No. 1-LB, General Metered Service (lower canyon), No. 1-PC, General Metered Service (upper canyon) and No. 1-SV, General Metered Service (above upper canyon). These rate schedules define three separate rate zones within the service area. Branch reviewed the current rate structure and recommends that proposed rates consist of two rate zones: the existing "lower canyon" zone (Schedule No. 1-LB) and the combined existing "upper canyon" zone (Schedule No. 1-PC) and existing "above upper canyon" zone (Schedule 1-SV). Branch found that the difference in cost-of-service between the existing "upper canyon" zone and "above upper canyon" zones to be insignificant. The differences between the two Branch proposed rate schedules in Appendix B is based on the additional plant necessary to serve the upper zone, reflected in the service charge differences and the additional cost to pump water to the upper zone reflected in the quantity charge difference. The rates proposed by the Branch in Appendix B recover 65% of LBWC's fixed costs through the service charge which is consistent with current rate design policy for Class C water utilities established in D.92-03-093.

LBWC no longer installs 5/8 x 3/4-inch meters because its supplier, Badger Meters, Inc., discontinued manufacturing them over ten years ago. LBWC has been installing 3/4-inch meters as the basic residential meter. As existing 5/8 x 3/4-inch meters wear out, they are replaced with 3/4-inch meters. Over time, all 5/8 x 3/4-inch meters will be replaced. In view of this, Branch's proposed rate design combines the 5/8 x 3/4-inch and 3/4-inch meters under one service charge. Branch's proposed rates for the various meter sizes are consistent with current rate design policy.

As with many Class C and D water and sewer utilities under Commission jurisdiction, LBWC'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. LBWC 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 LBWC 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, the monthly bill, including surcharges, for a 5/8 x 3/4-inch meter customer in the lower zone using 18 Ccf of water will increase from \$18.38 to \$32.18 or 75.1%. A comparison of customer bills at present and recommended rates, including the SDWBA surcharge decrease, 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 November 14, 1995. The Branch received twelve letters protesting the rate increase. The Commission's Consumer Affairs Branch (CAB) has received 22 complaints from LBWC customers since 1991. CAB categorized nine of these complaints as service related. Other complaints included high bill disputes, line extension protests, a service deposit complaint and a disconnect protest.

All of the complaints were resolved.

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, the allocation of the increase to the different rate zones, conflict of interest issues due to the water 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 would consider all of the customers' concerns. Several customers had specific complaints about their service. The utility responded to each complaint within a few days after the meeting. 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 at the second meeting were the same as those expressed at the December 5, 1995 meeting.

FINDINGS AND CONCLUSIONS

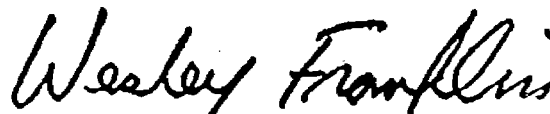
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The Safe Drinking Water Bond Act surcharges recommended by the Branch (Appendix B) are reasonable and should be adopted.

4. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
5. LEWC should be authorized to file revised Title Page, Rules 5, 8, 10, 11, 20, and 21.
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 Little Bear Water 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 three rate schedules: No. 1-LB, General Metered Service (lower canyon), No. 1-PC, General Metered Service (upper canyon) and No. 1-SV, General Metered Service (above upper canyon). 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. Within 60 days of the effective date of this resolution, Little Bear Water Company shall file updated Title Page, Rules 5, 8, 10, 11, 20, and 21.
3. 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 M. FRANKLIN
Executive Director

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

APPENDIX A1

Little Bear Water Company

SUMMARY OF EARNINGS
 Test Year 1996

Item	: <u>Utility Estimated</u> :		: <u>Branch Estimated</u> :		: <u>Adopted</u> :
	: <u>Present</u> :	: <u>Requested</u> :	: <u>Present</u> :	: <u>Requested</u> :	
	: <u>Rates</u> :	: <u>Rates</u> :	: <u>Rates</u> :	: <u>Rates</u> :	: <u>Rates</u> :
<u>Operating Revenue</u>					
Metered Rate	\$140,220	\$280,990	\$141,638	\$247,999	\$247,999
Total Revenue	\$140,220	\$280,990	\$141,638	\$247,999	\$247,999
<u>Operating Expenses</u>					
Power	38,500	38,500	34,000	34,000	34,000
Labor	21,425	21,425	21,425	21,425	21,425
Materials	4,120	4,120	4,000	4,000	4,000
Contract Work	4,223	4,223	3,000	3,000	3,000
Laboratory Services	7,776	7,776	5,000	5,000	5,000
Transportation	2,987	2,987	2,400	2,400	2,400
Plant Maintenance	3,090	3,090	1,500	1,500	1,500
Office Salaries	18,130	18,130	18,130	18,130	18,130
Management's Salaries	37,080	37,080	26,574	26,574	26,574
Uncollectible Accounts	500	550	460	460	460
Office Svcs. and Rent	6,077	6,077	7,180	7,180	7,180
Office Supplies/Expenses	4,429	4,429	3,950	3,950	3,950
Professional Services	7,820	7,820	5,600	5,600	5,600
Insurance	10,887	10,887	6,825	6,825	6,825
Regulatory Expense	1,030	1,030	1,500	1,500	1,500
General Expense	515	515	500	500	500
Subtotal	\$168,589	\$168,589	\$142,044	\$142,044	142,044
Depreciation	\$21,230	\$21,230	\$16,248	\$16,248	16,248
Payroll Taxes	7,089	7,089	5,967	5,967	5,967
Property Taxes	4,135	4,135	3,865	3,865	3,865
Permits	721	721	721	721	721
County Franchise Tax	2,804	5,620	2,804	4,960	4,960
State Income Tax	480	6,842	480	7,435	7,435
Federal Income Taxes	0	15,263	0	18,228	18,228
Total Deductions	\$205,048	\$229,489	\$172,129	\$198,402	\$199,468
Net Revenue	(64,828)	51,501	(30,491)	48,531	48,531
<u>Rate Base</u>					
Average Plant	\$747,841	\$747,841	\$721,365	\$721,365	721,365
Average Dep. Reserve	134,674	134,674	135,396	135,396	135,396
Net Plant	613,167	613,167	585,969	586,969	586,969
Less: Contributions	1,410	1,410	1,410	1,410	1,410
Advances	53,287	53,287	53,287	53,287	53,287
Less SDWA	171,600	171,600	165,000	165,000	165,000
Rate Base	\$386,870	\$386,870	\$366,272	\$366,272	366,272
Rate of Return	(Loss)	13.3%	(Loss)	13.25%	13.25%

APPENDIX B
 Page 1

Schedule No. 1-LC

METERED SERVICE

APPLICABILITY

Applicable to all metered water service in Little Bear District (Lower Canyon).

TERRITORY

Portions of Pine Canyon, and vicinity, located 3 miles southwest of King City, Monterey County.

RATES

Monthly Quantity Rates:

For all water, per 100 cu. ft..... \$ 0.846

		<u>SDWBA</u>		
	<u>Per Meter</u>	<u>Surcharge</u>	<u>Per Meter</u>	<u>Per Meter</u>
	<u>Per Month</u>	<u>Per Month</u>	<u>1/</u>	<u>Per Month</u>
				<u>2/</u>
<u>Monthly Service Charge:</u>				
For 5/8x3/4-inch meter...	\$ 15.25 (I)	\$ 1.70 (R)		\$ 0.22
For 3/4-inch meter...	15.25 ¶	1.70 ¶		0.22
For 1-inch meter...	25.45 ¶	2.84 ¶		0.55
For 1-1/2-inch meter...	50.80 ¶	5.65 ¶		1.10
For 2-inch meter...	81.30 ¶	9.05 ¶		1.76
For 3-inch meter...	152.50 ¶	16.98 ¶		3.30
For 4-inch meter...	254.15 (I)	27.17 (R)		5.50

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/ This SDWBA surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 87-04-013.

2/ This surcharge is in addition to the regular monthly metered water bill and is in effect for 5 years ending May 31, 2000. This surcharge must be identified on each bill. The surcharge is specifically to recover costs booked under the Memorandum Account for Unanticipated Repair Costs as authorized by Decision 92-03-093 for repairs due to the damages caused by the March 10 and 11, 1995 flood.

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

(D)
 (L)
 (L)

APPENDIX B
 Page 2

Schedule No. 1-UC

METERED SERVICE

APPLICABILITY

Applicable to all metered water service in Little Bear District (Upper Canyon).

TERRITORY

Portions of Pine Canyon, and vicinity, located 3 miles southwest of King City, Monterey County.

RATES

Monthly Quantity Rates:
 For all water, per 100 cu. ft..... 1.167

	Per Meter Per Month		SDWBA Surcharge Per Meter Per Month 1/		Per Meter Per Month 2/
<u>Monthly Service Charge:</u>					
For 5/8x3/4-inch meter...	\$ 25.10 (I)		\$ 1.70 (R)		\$ 0.22
For 3/4-inch meter...	25.10 ¶		1.70 ¶		0.22
For 1-inch meter...	41.90 ¶		2.84 ¶		0.55
For 1-1/2-inch meter...	83.60 ¶		5.65 ¶		1.10
For 2-inch meter...	133.80 ¶		9.05 ¶		1.76
For 3-inch meter...	251.00 ¶		16.98 ¶		3.30
For 4-inch meter...	418.35 (I)		27.17 (R)		5.50

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/ This SDWBA surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 87-04-013.
- 2/ This surcharge is in addition to the regular monthly metered water bill and is in effect for 5 years ending May 31, 2000. This surcharge must be identified on each bill. The surcharge is specifically to recover costs booked under the Memorandum Account for Unanticipated Repair Costs as authorized by Decision 92-03-093 for repairs due to the damages caused by the March 10 and 11, 1995 flood.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)
(L)

(END OF APPENDIX B)

APPENDIX C

BILL COMPARISON

A comparison of monthly customers bills at present and Branch's recommended rates for 1996 test year for a 5/8 x 3/4-inch meter and a 3/4-inch meter using 1800 cu ft. of water are shown below:

Meter Size	Present Rates (Including SDWBA)	Recommended Rates (Including SDWBA)	Percent Increase
<u>Little Bear District (Lower Canyon)</u>			
5/8"x3/4"	\$18.38	\$32.18	75.1%
3/4"	\$20.33	\$32.18	58.3%
<u>Pine Canyon District (Upper Canyon)</u>			
5/8"x3/4"	\$38.96	\$47.81	22.7%
3/4"	\$41.31	\$47.81	15.7%
<u>Sierra Vista District (Above Upper Canyon)</u>			
5/8"x3/4"	\$46.04	\$47.81	3.8%
3/4"	\$48.69	\$47.81	(1.8%)

(END OF APPENDIX C)

APPENDIX D
 Page 1

Little Bear Water Company

ADOPTED QUANTITIES
 Test Year 1996

Expenses:

1. Purchased power (Electric)	
Vendor	Pacific Gas and Electric
Schedules	A-1, A-1 P, A-10
Effective Date	1/1/95
Total Cost (\$)	\$34,000
kWh Used	
Customer Charge A-1	\$ 8.10
A-1P	\$12.00
A-10	\$75.00
A-1: \$/kWh Used (Summer rate)	\$ 0.14870
\$/kWh Used (Winter rate)	\$ 0.10193
A-10: \$/kWh Used (Summer rate)	\$ 0.08915
\$/kWh Used (Winter rate)	\$ 0.07279
2. Purchased water	None
3. Insurance Expenses	
Liability/Property	\$ 2,913
Surety Bond	\$ 100
Compensation	\$ 2,050
Auto Insurance	\$ 1,762
Total Cost	\$ 6,825
4. Ad Valorem Taxes	\$ 3,865
Composite Tax Rate	1.04937%
Assessed Value	\$368,316
5. Payroll Taxes	\$ 5,967
Social Security	5,059
Federal Unemployment	191
State Unemployment	717

Service Connections

Metered Rate	Lower Canyon	Upper Canyon
5/8x3/4-inch meter	323	52
3/4-inch meter	218	15
1-inch meter	0	0
1-1/2-inch meter	3	0
2-inch meter	1	0

Water Sales

Little Bear (Lower Canyon)	127,270 Ccf
Pine Canyon (Upper Canyon)	15,730 Ccf

APPENDIX D
Page 2

Little Bear Water Company

ADOPTED TAX CALCULATIONS
Test Year 1996

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$ 247,999	\$ 247,999
2.	O & M Expenses	\$ 142,044	\$ 142,044
3.	Taxes Other Than Income	\$ 15,513	\$ 15,513
4.	Depreciation	\$ 16,248	\$ 16,248
6.	Taxable Income for State Tax	\$ 74,194	
7.	State Tax*	\$ 7,435	
8.	Taxable Income for FIT		\$ 66,759
9.	Federal Income Tax*		\$ 18,228
10.	Total Income Tax		\$ 25,663

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 60% of income taxes for a combination of LBWC and LBSC.

(END OF APPENDIX D)