

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3995\*  
August 2, 1996

**R E S O L U T I O N**

(RES. W-3995), BORREGO SPRINGS WATER COMPANY (BSWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUES OF \$84,810 OR 13.63% IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON FEBRUARY 23, 1996.

**SUMMARY**

This Resolution grants an increase in gross annual revenues of \$84,810, or 13.63% for test year 1996. The increase will provide a 12.50% rate of return on rate base in the test year.

**BACKGROUND**

BSWC 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 \$145,496 or 24.10% in 1996. BSWC's request shows 1996 gross revenues of \$603,764 at present rates increasing to \$749,260 at proposed rates. BSWC also requested to reduce its Safe Drinking Water Bond Act (SDWBA) loan surcharge by 55% due to an increase in the number of customers since the SDWBA improvements were made. BSWC presently provides service to approximately 1,134 metered customers in the community of Borrego Springs located approximately 100 miles northeast of San Diego, San Diego County.

BSWC's last general rate increase was approved on July 22, 1992, by Resolution W-3660, which authorized an increase of \$67,388 or 12.65% in 1992. Subsequent to the general rate increase, BSWC has been authorized Consumer Price Index increases of 2.9% and 2.7% in 1993 and 1994, respectively, pursuant to Commission Decision (D.) 92-03-093; one-time surcharges to recover Department of Health Services fees in 1994 and 1995 pursuant to Resolution W-3784; and a surcharge over two monthly billings in 1996 to recover unanticipated expenses to repair a well pursuant to D.92-03-093.

**DISCUSSION**

The Water Utilities Branch (Branch) made an independent analysis of BSWC's operations. Appendix A shows BSWC'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.

BSWC was informed of the Branch's differing views of revenues, expenses, and rate base, and has stated that it agrees with the Branch's estimates.

BSWC's draft advice letter requested rates that it estimated would produce a return on rate base of 13.50%. The summary of earnings in Appendix A shows a rate of return of 12.50% at Branch's recommended rates. This rate of return is the midpoint of the range of 12.00% to 13.00% recommended by the Finance Branch of the Commission Advisory and Compliance Division for Class C water utilities. Under guidelines established in 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.

BSWC has a metered rate schedule (Schedule No. 1, Metered Service). The Branch's proposed metered rate design as shown in Appendix B, moves toward conforming with the current rate design policy for Class C water utilities, as stated in D.93-03-093 dated March 31, 1992, which allows for the recovery of up to 65% of fixed costs through the service charge. Branch's rate design increases the current 42% recovery of fixed costs in service charge to 49%. Branch's rate design also attempts to approach the "service charge allocation by meter size" ratios established in Branch's Rate Design Policy Memorandum dated January 18, 1991, by recommending service charge ratios that fall midway between the ratios in BSWC's present rates and the ratios established in the Branch's Rate Design Policy Memorandum.

At the Branch's recommended rates shown in Appendix B, the monthly bill, including surcharges, for a residential 3/4-inch meter customer using 32.7 Ccf of water will increase from \$34.81 to \$38.65 or 11.0%. 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 26, 1996. The Branch received ten letters protesting the rate increase. The Commission's Consumer Affairs Branch has received eight complaints from BSWC customers since 1993. One of the complaints was service related and the other seven were considered high bill complaints. All of the complaints were resolved.

A public meeting was held on Tuesday, April 2, 1996, at the Casa Del Zoro Resort Hotel in Borrego Springs. The Branch's representative explained Commission rate-setting procedures and the utility's representative explained the need for the rate increase. Approximately 50 customers attended the meeting. Customers expressed concerns in several areas which included the magnitude of the increase, a concern that the rate increase was being requested to enhance the sale price of the utility (BSWC is currently negotiating to sell the water system), conflict-of-interest issues involving BSWC purchasing materials from a supply company owned by a utility employee 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. He assured the customer who was concerned about the rate increase being requested to enhance the sale price of the utility that the Branch's final rate increase recommendations in this matter would be based strictly on allowing BSWC revenue to recover reasonable operating expenses and have the opportunity to earn a fair and reasonable return on prudent investment. Customer questions that BSWC representatives were unable to answer at the meeting were addressed in a utility newsletter mailed to each customer on July 3, 1996.

The Branch made a thorough independent investigation into the possible conflict of interest brought up at the public meeting involving BSWC purchasing materials from an employee-owned company. Borriego Pipe & Supply Co. (BPSC), owned by a utility employee, is the only company in town that stocks American Water Works Association (AWWA) approved materials and supplies for public water system repair and maintenance. Branch found purchases made by BSWC from BPSC to be necessary and prices charged to be reasonable. In view of this, Branch is of the opinion that there is no conflict of interest in the matter. In fact, the presence of BPSC in town probably saves ratepayers money in that material and supplies do not have to be shipped in. The Branch's recommended rate increase does not include any costs associated with the pending sale of the utility.

#### 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. 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 Borriego Springs Water Company to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendix B, and concurrently to cancel its presently effective rate schedule No. 1, Metered Service. The effective date of the revised schedule shall be five days after the date of its filing.

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2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on August 2, 1996. The following Commissioners approved it:

  
WESLEY M. FRANKLIN  
Executive Director

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

APPENDIX B  
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Borrego Springs and vicinity, San Diego County.

RATES

Quantity Rate:

All water, per 100 cu.ft. .... \$0.705 (I)

Service Charge:

	<u>Per Meter Per Month</u>	<u>SDWBA Monthly Surcharge (I)</u>
For 5/8 x 3/4-inch meter .....	\$12.00 (I)	\$ 0.65 (R)
For 3/4-inch meter .....	15.60	0.98
For 1-inch meter .....	24.00	1.62
For 1-1/2-inch meter .....	42.00	3.26
For 2-inch meter .....	64.80	5.25
For 3-inch meter .....	120.00	9.67 (R)
For 4-inch meter .....	192.00 (I)	16.50 (I)

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

SPECIAL CONDITIONS

1. The SDWBA (Safe Drinking Water Bond Act) surcharge is in addition to the water bill. This surcharge must be identified on each bill. The surcharge is specifically for the repayment of the California SDWBA loan authorized by Decision 92116. (D) (L)
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)

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Schedule No. 1  
(continued)

METERED SERVICE

SPECIAL CONDITIONS

3. As authorized by the California Public Utilities Commission, all bills for metered service are subject to a two-month surcharge as shown in the table below. This charge offsets the costs of the extraordinary event of emergency repair costs to Well #2, incurred during January through March of 1996. This surcharge is in addition to the water bill and other surcharges.

(L)

Service Charge:

	<u>Meter Size</u>	<u>Per Meter Per Month</u>
For	5/8 x 3/4-inch meter .....	\$ 9.05
For	3/4-inch meter .....	9.86
For	1-inch meter .....	13.47
For	1-1/2-inch meter .....	18.43
For	2-inch meter .....	26.00
For	3-inch meter .....	45.17
For	4-inch meter .....	63.25

(L)

APPENDIX C

COMPARISON OF RATES

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

METERED SERVICE

Service Charge:

	<u>Per Meter Per Month</u>		<u>Amount Increase</u>	<u>Percent Increase</u>
	<u>Present Rates</u>	<u>Recommended Rates</u>		
For 5/8x3/4-inch meter	\$ 11.15	\$ 12.00	\$ 0.85	7.62%
For 3/4-inch meter	12.15	15.60	3.45	28.40
For 1-inch meter	16.60	24.00	7.40	44.58
For 1-1/2-inch meter	22.60	42.00	19.40	85.84
For 2-inch meter	31.45	64.80	33.35	106.00
For 3-inch meter	55.70	120.00	64.30	115.44
For 4-inch meter	75.35	192.00	116.65	154.81

Quantity Rate:

Per 100 cu.ft. ....	\$0.669	\$0.705	\$0.036	5.38%
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A monthly bill comparison for a customer with a 3/4-inch meter is shown below:

<u>Monthly Usage</u> <u>100 cu. ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 12.15	\$ 15.60	\$ 3.45	28.40%
10	18.84	22.65	3.81	20.22
30	32.22	36.75	4.53	14.06
32.7 Avg.	34.03	38.65	4.62	13.58
50	45.60	50.85	5.25	11.51
100	79.05	86.10	7.05	8.92
200	145.95	156.60	10.65	7.29

(END OF APPENDIX C)

APPENDIX D  
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ADOPTED QUANTITIES  
Test Year 1996

Expenses:

1. Purchased Power

Vendor	SDG&E
Schedule No.	PA; Pa-T-1
Effective Date	May 1, 1995
<u>Schedule PA</u>	
Energy Charge Per kWh	\$0.10607
Consumption	239,535 kWh
Energy Charge	\$ 25,407
Energy Comm. Surcharge	\$ 77.00
Service Charge	\$ 240.00
<u>Schedule Pa-T-1</u>	
<u>Energy Charge per kWh</u>	
On-Peak	\$0.08500
Semi-Peak	\$0.06489
Off-Peak	\$0.04490
Consumption	1,787,576 kWh
Surch. Tax & Regul. Fee	\$0.00032 per kWh
Service Charges	\$260 per mo.
Total Cost	\$163,360 per year

2. Purchased Water

None

3. Insurance Expense

\$ 25,840

4. Ad Valorem Taxes

\$ 14,989

Tax Rate

1.00%

Assessed Value

\$1,349,570

5. Water Testing Expense

\$13,950

Service Connections

Metered Rate:

5/8x3/4-inch meter	234
3/4-inch meter	721
1-inch meter	139
1-1/2-inch meter	27
2-inch meter	8
3-inch meter	3
4-inch meter	2

Total 1,134

Metered Water Sales Used to Design Rates 661,122 Ccf



APPENDIX D  
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ADOPTED TAX CALCULATIONS  
Test Year 1996

Federal Tax Rate:

First \$ 50,000	15%
Next \$ 25,000	25%
Next \$ 25,000	34%
Next \$235,000	39%
California Corporate Franchise Rate:	9.3%
Local Franchise Rate:	0.0%

<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1. Operating Revenue	\$ 707,009	\$ 707,000
2. O & M Expense	441,550	441,550
3. Taxes Other Than Income	27,920	27,920
4. Depreciation	52,210	52,210
5. Interest	30,731	30,731
6. Depreciation on Taxes	2,405	6,112
7. Taxable Income for CCFT	152,815	
8. CCFT @ 9.3%	14,210	
9. Taxable Income for FIT		134,265
10. Federal Income Tax @ 39%		35,610
11. Total Income Tax	\$49,920	

BORREGO SPRINGS WATER COMPANY

SUMMARY OF EARNINGS  
Test Year 1996

Item	Utility Estimated		Branch Estimated		Branch Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>Operating Revenue</b>					
Metered	599,611	749,107	622,040	769,560	706,850
Private Fire Prot.	153	153	150	150	150
<b>Total Revenue</b>	<b>603,764</b>	<b>749,260</b>	<b>622,190</b>	<b>769,710</b>	<b>707,000</b>
<b>Operating Expenses</b>					
Purchased Power	163,359	163,359	163,360	163,360	163,360
Other Vol Rel	5,433	5,433	5,430	5,430	5,430
Employee Labor	99,421	99,421	99,420	99,420	99,420
Materials	15,409	15,409	15,410	15,410	15,410
Contract Work	15,957	15,957	13,950	13,950	13,950
Transportation	10,187	10,187	10,190	10,190	10,190
Other Plant Maint	4,836	4,836	4,840	4,840	4,840
Office Salaries	25,669	25,669	25,670	25,670	25,670
Mgmt Salaries	20,183	20,183	20,180	20,180	20,180
Employee Pen. & Ben.	26,438	26,438	26,440	26,440	26,440
Uncollectible	435	539	440	540	540
Off Serv & Rentals	15,015	15,015	15,020	15,020	15,020
Office Supplies	14,573	14,573	14,570	14,570	14,570
Professional Serv	26,071	26,071	21,070	21,070	21,070
Insurance	26,097	26,097	25,840	25,840	25,840
Reg Comm Expense	11,820	11,820	4,730	4,730	4,730
General Expenses	5,081	5,081	4,310	4,310	4,310
Expenses Capitalized(29,418)		(29,418)	(29,420)	(29,420)	(29,420)
<b>Subtotal</b>	<b>456,566</b>	<b>456,670</b>	<b>441,450</b>	<b>441,550</b>	<b>441,550</b>
Depreciation	59,691	59,691	52,210	52,210	52,210
Non Income Tax	28,262	28,262	27,920	27,920	27,920
Income Taxes	5,424	58,419	15,710	77,890	49,820
<b>Total Deductions</b>	<b>549,943</b>	<b>603,042</b>	<b>537,290</b>	<b>599,570</b>	<b>571,500</b>
<b>Net Revenue</b>	<b>53,621</b>	<b>146,218</b>	<b>84,900</b>	<b>170,140</b>	<b>135,500</b>
<b>Rate Base</b>					
Average Plant	2,244,414	2,244,414	2,238,560	2,238,560	2,238,560
Average Dep Res	809,110	809,110	798,440	798,440	798,440
<b>Net Plant</b>	<b>1,435,304</b>	<b>1,435,304</b>	<b>1,440,120</b>	<b>1,440,120</b>	<b>1,440,120</b>
<b>Less</b> Deferred Taxes	<b>83,402</b>	<b>83,402</b>	<b>83,400</b>	<b>83,400</b>	<b>83,400</b>
Contributions	315,901	315,901	315,900	315,900	315,900
<b>Plus</b> Working Cash	<b>40,400</b>	<b>40,400</b>	<b>38,090</b>	<b>38,090</b>	<b>38,090</b>
Mat'l & Sup	6,697	6,697	4,970	4,970	4,970
<b>Rate Base</b>	<b>1,083,098</b>	<b>1,083,098</b>	<b>1,083,880</b>	<b>1,083,880</b>	<b>1,083,880</b>
<b>Rate of Return</b>	<b>4.97%</b>	<b>13.50%</b>	<b>7.83%</b>	<b>15.70%</b>	<b>12.50%</b>