

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4006
October 25, 1996

RESOLUTION

(RES. W-4006), INTERSTATE-5 UTILITY COMPANY, INC.
(SEWER) (I-5SC). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$1,436
OR 1.7% IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON JUNE 17, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$1,436, or 1.7% for test year 1996. The increase will provide a 13.25% rate of return on rate base in the test year.

BACKGROUND

I-5SC 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 \$34,353 or 42.34% in 1996. I-5SC's request shows 1996 gross revenue of \$81,137 at present rates increasing to \$115,490 at proposed rates.

I-5SC presently provides service to approximately 18 customers in a service area which is located approximately 23 miles west of the City of Bakersfield. I-5SC's service area consists of the unincorporated Kern County area near Buttonwillow at the Interstate Route 5 and State Route 58.

I-5SC's last general rate increase was approved on June 17, 1992, by Res. W-3652 which authorized a rate increase of \$3,491 or 4.35% in 1992.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of I-5SC's operations and issued its report in September, 1996. Appendix A shows I-5SC'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.

I-5SC was informed of the Branch's differing views of revenues, expenses, and rate base and stated that it accepts the Branch's estimates.

I-5SC's draft advice letter requested rates that it estimated would produce a return on rate base of 20.3%. 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 12.75% to 13.75% recommended by the Finance Branch of the Commission Advisory and Compliance Division for Class D water

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utilities. The Branch believes this rate of return is also appropriate for sewer companies. 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.

I-55C's filed tariff currently contains one rate schedule: Schedule No, 2, Flat Rate Sewer Service.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a 1-inch service will increase from \$110.00 to \$111.92 or 1.7%. The monthly bill for a 2-inch service will increase from \$350.00 to \$356.12 or 1.7%. 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 July 25, 1996. One letter protesting the rate increase was received by the Branch. The Consumer Affairs Branch (CAB) has not received any complaints since the beginning of 1991.

A public meeting was scheduled for Thursday, September 5, 1996, at the offices of Carpenter, Kuhlen & Sprayberry at 5601 Truxtun Ave., Suite 200 at 6:00 pm. The date, time, and location of the meeting were specified in the notice of rate increase mailed to each customer on July 25, 1996. Branch and utility representatives were present and waited for approximately 45 minutes after the meeting was scheduled to start. No one showed up.

FINDINGS AND CONCLUSIONS

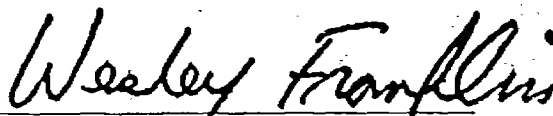
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

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IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Interstate 5 Utility Company (Sewer) to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate schedule: No. 2, Flat Rate Sewer Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 1996. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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

Commissioner Daniel Wm. Fessler,
being necessarily absent,
did not participate.

APPENDIX A

Interstate 5 Utility Company, Inc.

SUMMARY OF EARNINGS
Test Year 1996

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenues</u>					
Flat Rate	\$81,137	\$115,490	\$83,232	\$84,668	\$84,668
Total Revenue	\$81,137	\$115,490	\$83,232	\$84,668	\$84,668
<u>Operating Expenses</u>					
Power	17,100	17,100	17,100	17,100	17,100
Materials	2,330	2,330	2,330	2,330	2,330
Contract Work	11,830	11,830	11,830	11,830	11,830
Transportation	1,700	1,700	1,700	1,700	1,700
Plant Maintenance	2,330	2,330	2,330	2,330	2,330
Office Salaries	1,500	1,500	1,500	1,500	1,500
Management's Salaries	2,520	2,520	2,520	2,520	2,520
Uncollectible Accounts	2,050	2,050	1,575	1,575	1,575
Office Svcs. and Rent	18,060	18,060	420	420	420
Professional Services	2,280	2,280	2,280	2,280	2,280
Insurance	1,840	1,840	1,840	1,840	1,840
General Expense	45	45	45	45	45
Subtotal	\$63,585	\$63,585	\$45,470	\$45,470	\$45,470
Depreciation	\$3,685	\$3,685	\$5,457	\$5,457	\$5,457
Payroll Taxes	310	310	310	310	310
Property Taxes	1,155	1,155	1,155	1,155	1,155
Permits & Fees	1,225	1,225	1,200	1,200	1,200
State Income Tax	1,039	4,234	2,757	2,890	2,890
Federal Income Taxes	1,521	6,194	4,033	4,228	4,228
Total Deductions	\$72,520	\$80,389	\$60,381	\$60,710	\$60,710
Net Revenue	\$ 8,617	\$35,101	\$22,851	\$23,958	\$23,958
<u>Rate Base</u>					
Average Plant	\$350,247	\$350,247	\$355,060	\$355,060	\$355,060
Average Dep. Reserve	0	0	134,335	134,335	134,335
Net Plant	350,247	350,247	220,725	220,725	220,725
Less: Contributions	107,394	107,394	44,202	44,202	44,202
Plus: Miscellaneous	3,491	3,491	0	0	0
Working Cash	0	0	3,790	3,790	3,790
Mat'l. & Suppl.	0	0	500	500	500
Rate Base	\$246,344	\$246,344	\$180,813	\$180,813	\$180,813
Rate of Return	3.5%	20.3%	12.78%	13.25%	13.25%

APPENDIX B

Schedule No. 2

FLAT RATE SEWER SERVICE

APPLICABILITY

Applicable to all sewer service.

TERRITORY

The commercial and industrial development in the vicinity of the interchange of Interstate 5 and State Route 58, near Buttonwillow in Kern County.

RATES

Size of Water Meter Serving Premises:

		<u>Per Month</u>	
For	1-inch service...	\$111.92	(I)
For	2-inch service...	\$356.12	
For	3-inch service...	\$667.47	(I)

APPENDIX C

BILL COMPARISON

A comparison of monthly customers bills at present and Branch's recommended rates for 1996 test year are shown below:

<u>Service Size</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
1 st	\$110.00	\$111.92	1.7%
2 nd	\$350.00	\$356.12	1.7%
3 rd	\$656.00	\$667.47	1.7%

APPENDIX D
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Interstate 5 Sewer Company, Inc.

ADOPTED QUANTITIES
Test Year 1996

Expenses:

1. Purchased Power (Electric)

Vendor	Pacific Gas and Electric
Schedules	A-6, A-10
Effective Date	1/1/95
Total Cost (\$)	\$ 17,100
kWh Used	168,100 kWh
Customer Charge	A-6 \$12.00
	A-10 \$75.00
A-6: \$/kWh Used (Summer rate-Peak)	\$ 0.23258
\$/kWh Used (Summer rate-Partial-Peak)	\$ 0.10288
\$/kWh Used (Summer rate-Off-Peak)	\$ 0.05618
\$/kWh Used (Winter rate-Partial-Peak)	\$ 0.11562
\$/kWh Used (Winter rate-Off-Peak)	\$ 0.07279
A-10: \$/kWh Used (Summer rate)	\$ 0.08915
\$/kWh Used (Winter rate)	\$ 0.07279

2. Purchased Water

None

3. Insurance Expenses

Liability/Property	\$ 1,309
Compensation	\$ 531
Total Cost	\$1,840

4. Ad Valorem Taxes

Composite Tax Rate	\$ 1,155
Assessed Value	1.058119%
	\$109,156

5. Payroll Taxes

Social Security	\$310
Federal Unemployment	263
State Unemployment	12
	35

Service Connections

1-inch meter	5
2-inch meter	7
3-inch meter	6

APPENDIX D
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Interstate 5 Sewer Company, Inc.

ADOPTED TAX CALCULATIONS
Test Year 1996

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$84,668	\$84,668
2.	O & M Expenses	\$45,470	\$45,470
3.	Taxes Other Than Income	\$ 2,665	\$ 2,665
4.	Depreciation	\$ 5,457	\$ 5,457
6.	Taxable Income for State Tax	\$31,076	
7.	State Tax*	\$ 2,890	
8.	Taxable Income for FIT		\$28,186
9.	Federal Income Tax*		\$ 4,228
10.	Total Income Tax		\$ 7,118

California Corporate Franchise Rate 9.3%

Federal Income Tax Rate 15%

(END OF APPENDIX D)