

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4008
November 26, 1996

R E S O L U T I O N

(RES. W-4008), CALIFORNIA HOT SPRINGS WATER AND SEWER COMPANY (CHS). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$14,921 OR 182% IN 1996.

BY DRAFT ADVICE LETTER ACCEPTED ON JULY 25, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$14,921, or 182% for the combined water and sewer utilities for test year 1996. The revenue requirement was calculated using the operating ratio method and allows for a 20% margin.

BACKGROUND

CHS requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water and sewer service to produce additional revenues of \$28,792 or 311% in 1996. CHS's request shows 1996 gross revenue of \$7,000 at present rates increasing to \$35,792 in 1996 to produce a return on margin of 24%. CHS presently serves 27 metered water and flat-rate sewer customers in the unincorporated community of California Hot Springs and vicinity, located in Tulare County.

The present rates became effective on August 15, 1985, pursuant to Res. W-3262, which authorized a general rate increase of \$1,950 or 95.5% for the water utility and \$3,560 or 191% for the sewer utility.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of CHS's summary of earnings and issued its report in October 1996. Appendix A shows CHS's and the Branch's estimated summaries of earnings at present, requested, and adopted rates for the test year 1996. Appendix A also shows differences in the estimates of revenues and operating expenses.

There are three items of expense which cannot be reasonably estimated at this time and for which the Branch is recommending that CHS be authorized to file an advice letter(s). These are nitrate and organic/inorganic testing, sludge removal and an anticipated estimate in the fees imposed by the Regional Water Quality Control Board (RWQCB).

The Tulare County Environmental Health Division requires an annual nitrate test and an organic/inorganic test every three years. These future expenses are unknown.

With regards to sludge removal, CHS, in the past, has simply removed the sludge from its evaporation ponds and spread it out to dry. CHS claims that, due to a county zoning requirement, it cannot continue this practice and must have the sludge removed by a contractor. The Branch was unable to confirm this with the county and, therefore excluded the expense for this item; however, it is clear that if it is or becomes a county requirement, an additional expense will be incurred by CHS.

The third expense is the RWQCB fees. The Branch was informed by RWQCB that its current annual fee of \$400 will increase to \$1,200 because of an anticipated change in CHS's classification category. The date of this increase has not been set, but CHS should be authorized to recover the increased fees when it does occur.

CHS was informed of the Branch's differing views of revenues and expenses and stated that it agreed with the Branch's findings.

In Resolution W-3262, the Commission authorized CHS a rate increase based on a rate base of \$35,950 for the sewer system, although the Branch could not make a determination of the water system rate base since original cost could not be determined. At that time, there was no alternative rate-making methodology for small water utilities; therefore, the increase for the water utility was based solely on the expenses of the water utility. In Decision (D.) 92-03-093, dated April 30, 1992, the Commission adopted the Operating Ratio Method (ORM) as an alternative to the standard Return on Ratebase Method for Class C and D water utilities. Accordingly, the Branch applied these two methods to CHS's request; however, since CHS's water plant could not be determined, the traditional return on ratebase approach could not be used. The ORM provided a combined net revenue of \$3,264 for both utilities resulting in an increase in gross revenues of 182%.

In February of 1982, the Commission adopted a policy of capping small water company rate increases at 100% per year. The revenues deferred by capping are made up, with interest, through rates approved for the subsequent year. Rates are lowered to their final level in the third year when all deferred revenues and interest have been recovered. A rate increase greater than 100% in the first year is permitted when necessary to eliminate a negative rate of return or out-of-pocket losses.

An increase of \$11,168 or 136% would be necessary for CHS to break even; however, the Branch is recommending that the full increase be granted now. The Branch believes that imposing two rate increases, and then a decrease, would result in more complications for this small company, and its customers, than was intended in the Commission policy.

Some of CHS's customers contend that after long absences from their cabins, their taps initially put out substantial amounts of green algae. According to the Tulare County Environmental Health Division, although the algae is undesirable, it does not pose a health risk.

Some of CHS's customers claim that the swimming pool drainage water is treated through the sewer system and therefore, the charges for the sewer service should be reduced accordingly; however, CHS states that the water is actually dumped into an adjacent creek and not into the sewer system. The RWQCB is aware of this disposal method and finds it acceptable.

CHS's draft advice letter requested rates which it estimated would produce a return on margin of 24%. The summary of earnings in Appendix A shows a return of 20% in 1996 at the Branch's recommended rates. This is the standard return on margin that the Branch has utilized since authorization of this method in D.92-03-093.

CHS was ordered in Res. W-3262 to maintain separate books of account and file separate annual reports for its systems. CHS continues to maintain one set of books for both utilities, arguing that for such small systems it is not practical to maintain two separate books. Also, at the time of the filing of this request for a rate increase, CHS had not filed annual reports for 1992 through 1995. The Branch informed CHS that it could not process the rate request until the reports were filed. Subsequently, on September 11, 1996, CHS filed the reports.

Although ordered to maintain separate books of account and file separate annual reports in Res. W-3262, Branch now believes there is no reason to require CHS to do so. As far as Branch can determine, there is no requirement in the Public Utilities Code for sewer companies to file an annual report; neither does the Commission's Uniform System of Accounts apply to sewer utilities. For these reasons, Branch believes that CHS's books can be combined for ratemaking and annual report purposes; however, Branch recommends that CHS be required to maintain separate tariff books for its water and sewer operations.

There are no outstanding Commission orders requiring improvements. CHS has not filed updated tariff sheets for the water utility's Title Page, Service Area Map, Schedule UF, Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form. CHS does not maintain a sewer tariff book. The Branch recommends that CHS be ordered to update the water utility tariff book and establish a new sewer tariff book.

CHS's filed water tariffs currently contain one rate schedule: Schedule 1, Metered Service; the sewer tariffs also contain one rate schedule: Schedule 1, General Residential Service.

Current water rate design policy as set by D.92-03-093 allows CHS to recover up to 100% of its fixed costs through its service charges. In addition, Branch guidelines call for no rate element to increase by more than twice the system average increase. The rate schedule included as Appendix B meets these criteria. Sewer rates were increased by the overall revenue requirement percentage increase.

At the Branch's recommended rates shown in Appendix B, the monthly bills for a typical metered water customer using 600 cubic feet of water through a 3/4-inch meter will increase from \$10.44 to \$33.44. The monthly sewer bill would increase from \$14.60 to \$35.70. 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 26, 1996. The Branch received five letters protesting the rate increase. The Commission's Consumer Affairs Branch has not received any complaints since January of 1995.

A public meeting was held on Saturday, August 17, 1996, at the California Hot Springs Resort in CHS's service area. The Branch's representative explained Commission rate-setting procedures and the utility's representative explained the need for the rate increase. About 20 customers attended the meeting with their primary concern being the operating expenses and service.

The Branch mailed a copy of the staff report to each customer who had requested a copy and has not received any comments from them.

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. CHS should be authorized to establish a memorandum account for the costs of the nitrate and organic/inorganic testing, sludge disposal and increased costs of the RWQCB fees. When these costs exceed 2% of revenues CHS should be authorized to file an advice letter requesting recovery of these costs.
6. CHS should be ordered to file the following updated tariff sheets: Title Page, Schedule UF, Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form for the water utility, and the entire tariff book for the sewer utility.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for California Hot Springs Water and Sewer Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1 for water service, and for 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.
2. California Hot Springs Water and Sewer Company is authorized to establish and maintain a memorandum account to record the costs of the nitrate and organic/inorganic testing, sludge disposal, and increased costs of the Regional Water Quality Control Board fees. California Hot Springs Water and Sewer Company shall send a letter to the Small Water Branch notifying it that the memorandum account has been established. When these costs exceed 2% of the revenues, California Hot Springs Water and Sewer Company is authorized to file an advice letter requesting recovery of these costs.
3. Within 90 days of the effective date of this order, California Hot Springs Water and Sewer Company shall file the following updated tariff sheets: Title Page, Schedule UF, Rules 5, 8, 10, 11, 15, 16, 20, and 21, and the Connection Fee Data Form for the water utility and the entire tariff book for the sewer utility.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 26, 1996. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

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

Commissioner Henry M. Duque, being necessarily absent, did not participate.

APPENDIX A

Page 1 of 1

**California Hot Springs Water and Sewer
TEST YEAR 1996**

	Utility Estimated @		Branch Estimated @		Branch Recommended Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Metered Water Revenue	\$ 3,000	\$ 17,896	\$ 3,459	\$ 17,891	\$ 11,555
Sewer Revenue	\$ 4,000	\$ 17,896	\$ 4,730	\$ 17,901	\$ 11,555
Total Revenue:	\$ 7,000	\$ 35,792	\$ 8,189	\$ 35,792	\$ 23,110
Operating Expenses					
615-Purchased Power	\$ 3,714	\$ 3,714	\$ 2,167	\$ 2,167	\$ 2,167
618-Other Volume related	\$ -	\$ -			
630-Employee Labor	\$ 2,160	\$ 2,160	\$ 2,160	\$ 2,160	\$ 2,160
640-Materials	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050
650-Contract Work	\$ 2,584	\$ 2,584	\$ 404	\$ 404	\$ 404
660-Transportation	\$ 1,404	\$ 1,404	\$ 486	\$ 486	\$ 486
664-Other Plant Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
670-Office Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
671-Management Salaries	\$ 8,100	\$ 8,100	\$ 5,400	\$ 5,400	\$ 5,400
674-Employee Pensions and Benefits	\$ -	\$ -	\$ -	\$ -	\$ -
676-Uncollectibles	\$ -	\$ -	\$ -	\$ -	\$ -
678-Office Services	\$ 500	\$ 500	\$ 154	\$ 154	\$ 154
681-Office Supplies	\$ 600	\$ 600	\$ 1,100	\$ 1,100	\$ 1,100
682-Professional Services	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350
684-Insurance	\$ 1,144	\$ 1,144	\$ 1,144	\$ 1,144	\$ 1,144
688-Regulatory Expense	\$ -	\$ -	\$ -	\$ -	\$ -
689-General Expense	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400
TOTAL OPERATING EXPENSES	\$ 22,006	\$ 22,006	\$ 14,815	\$ 14,815	\$ 14,815
Depreciation	\$ 3,000	\$ 3,000	\$ 1,500	\$ 1,500	\$ 1,500
Non-Income Taxes	\$ 2,820	\$ 2,820	\$ 2,242	\$ 2,242	\$ 2,242
State Income Taxes	\$ 800	\$ 800	\$ 800	\$ 1,602	\$ 800
Federal Income Taxes	\$ 1,200	\$ 1,200	\$ -	\$ 2,345	\$ 489
TOTAL EXPENSES	\$ 29,826	\$ 29,826	\$ 19,357	\$ 22,504	\$ 19,846
MARGIN	\$ (22,826)	\$ 5,966	\$ (11,168)	\$ 13,288	\$ 3,264
RETURN ON MARGIN	Negative	24%	Negative	81%	20%

APPENDIX B
 Page 1

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

California Hot Springs and vicinity, Tulare County.

RATES

Quantity Rate:

All water, per 100 cubic feet \$ 1.29 (I)

Service Charges:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 17.00	(I)
For 3/4-inch meter	25.50	
For 1-inch meter	42.40	
For 1-1/2-inch meter	85.00	
For 2-inch meter	136.00	
For 3-inch meter	255.00	
For 4-inch meter	424.00	(I)

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

(N)
 |
 (N)

APPENDIX B

Page 2

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

California Hot Springs and vicinity, Tulare County.

RATES

Single Family Residence\$ 35.70 (I)

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth on Schedule UF.

(N)
|
(N)

(END OF APPENDIX B)

APPENDIX C

California Hot Springs Water and Sewer Company

COMPARISON OF RATES

WATER SERVICE

	<u>Present Rates</u>	<u>Per Meter Per Month Proposed Rates</u>	<u>Percent Increase</u>
Quantity Rates:			
Per Ccf.....	\$ 0.44	\$ 1.29	193%
Service Charge:			
5/8-inch meter.....	\$ 7.10	\$ 17.00	139%
3/4-inch meter.....	\$ 7.80	\$ 25.50	227%
1 -inch meter.....	\$ 10.70	\$ 42.50	297%
1 1/2 -inch meter.....	\$ 14.20	\$ 85.00	499%
2 -inch meter.....	\$ 19.20	\$ 136.00	608%
3 -inch meter.....	\$ 35.50	\$ 255.00	618%
4 -inch meter.....	\$ 48.30	\$ 425.00	780%

A comparison of typical bills for residential metered customers with a 3/4-inch meter is shown at present and recommended rates.

<u>Monthly Usage 100 cu. ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 7.80	\$ 25.50	\$ 17.70	227%
6 (AVG)	10.44	33.44	23.00	220%
10	12.20	38.60	26.40	216%
15	14.40	45.05	30.65	213%
20	16.60	51.50	34.90	210%
25	18.80	51.95	39.15	208%

SEWER SERVICE

	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
Single Family Residence	\$14.60	\$ 35.70	\$20.10	138%

(END OF APPENDIX C)

APPENDIX D
 Page 1

California Hot Springs Water and Sewer Company

ADOPTED QUANTITIES
 Test Year 1996

Expenses

(A) Purchased Power Total: \$ 2,167
 Vendor: Southern California Edison Company

Schedule No.	PA-1
Effective Date	May 1, 1996
Customer Charge	\$17.65 per month
Service Charge, per hp	\$2.05
Energy Charge	\$0.09172

(1) Water and sewer pumps, above cabins:

TY kWh	11,016
HP	3.2
Total Cost:	\$1,301.

(2) Sewer pumps at plant (aeration and evaporation pond pump)

TY kWh	5,794	(40% of 14,485)
HP	5	
Total Cost:	\$866.	

(B) Ad Valorem Taxes \$ 1,363

Service Connections

(C) Domestic Metered Rate:	Number:
5/8 inch meter	0
3/4 inch meter	26
1 inch meter	0
1-1/2 inch meter	1
2 inch meter	0
3 inch meter	0
4 inch meter	0
Total	27

(D) Flat Rate Sewer Service: 27

APPENDIX D

Page 2

California Hot Springs Water and Sewer Company

ADOPTED TAX QUANTITIES

Test Year 1996

Federal Tax Rate: 15 $\frac{1}{2}$
 California Corporate Franchise Rate: 9.3 $\frac{1}{2}$

Assume California tax is \$800.

Federal Tax:

<u>No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$ 22,620	\$ 22,620
2.	O & M Expense	\$ 14,815	\$ 14,815
3.	Taxes Other Than Income	\$ 2,242	\$ 2,242
4.	Depreciation	\$ 1,500	\$ 1,500
5.	Taxable Income for CCFT	\$ 4,063	
6.	CCFT @ 9.3 $\frac{1}{2}$ or \$800 minimum	\$ 800	
7.	Taxable Income for FIT	\$ 3,263	
8.	Federal Income Tax @ 15 $\frac{1}{2}$	800	\$ 489
9.	Total Income Tax	\$ 1,289	

(END OF APPENDIX D)

APPENDIX B
Page 1

DISTRIBUTION:

F. Curry, Chief
J. Sekhon, Supervisor
R. Tom, Senior Engineer

PREPARED BY:

RAMI KAHLON
Date: August 20, 1996

MEMORANDUM OF PUBLIC MEETING

Subject: Informal Public Meeting Concerning General Rate Increase
Request by California Hot Springs Water and Sewer
Company.

Held at: California Hot Springs Resort
42177 Hot Springs Drive
California Hot Springs

Date: Saturday, August 17, 1996

Time: 5:30 PM

Present:

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
Rami Kahlon	Engineer	CPUC Staff
Ron Gilbert	Owner	California Hot Springs Water and Sewer Company

Notice of the meeting was mailed to the ratepayers prior to the meeting date.

The meeting began at 5:30 p.m. with approximately 20 persons in attendance. California Hot Springs serves about 27 individual cabins.

Mr. Rami Kahlon began the meeting by explaining Commission procedure in regards to the rate increase application. Mr. Kahlon also asked customers to air all of their concerns regarding rates and service after the presentations. Mr. Kahlon also passed out copies of the utility's proposed Summary of Earnings, as well as proposed rate design, to the customers at the start of the meeting. Mr. Kahlon then asked Mr. Gilbert to explain the need for a rate increase. Mr. Gilbert's comments were brief.

APPENDIX E
Page 2

Mr. Kahlon then opened up the meeting for customer questions and concerns. Most of the comments and questions were specific in nature and dealt with water service and operating expenses.

MAJOR CUSTOMER SERVICE CONCERNS:

- (1) Is the RV park and resort complex connected to the water and sewer system and is there any customer subsidy involved?
- (2) We have frequent water outages and the water is sometimes cold when it should be hot.
- (3) My across-the-street neighbor has water, but I don't.
- (4) There have been several recent water outages.
- (5) Prior to your purchase of the water system and resort, we always had sufficient water.
- (6) More outages are occurring since the new water bottling plant was built.

MAJOR CUSTOMER CONCERNS REGARDING OPERATING EXPENSES:

- (1) Why do you have any transportation expense?
- (2) Why is your management salary proposal so high?
- (3) Does your power expense include power for the resort?
- (4) Why is "Contract Work" so high?

Many of customers in attendance traveled from far away to attend the public meeting. Mr. Gilbert told me that there is only one full-time customer in this resort area. The proposed rate increase is 411%.

The meeting was adjourned at approximately 7:30 pm. Both the staff and the utility representative remained to answer individual questions.

(END OF APPENDIX E)