

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4037
April 9, 1997

RESOLUTION

(RES. W-4037), PINE MOUNTAIN WATER COMPANY (PMWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$7,027, OR 75.3% IN
1997.

BY DRAFT ADVICE LETTER ACCEPTED ON NOVEMBER 12, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$7,027, or 75.3% for test year 1997. The increase will provide a 13.25% rate of return on rate base in the test year.

BACKGROUND

PMWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$8,060 or 86.7% in 1997. PMWC's request shows 1997 gross revenue of \$9,300 at present rates increasing to \$17,360 at proposed rates to produce a rate of return on rate base of 13.25%. PMWC presently serves about 86 flat-rate customers in Tract Nos. 416 and 455 in Rainbow Tract and Tract Nos. 438 and 455 in Pine Mountain, a mountainous area approximately one mile east of Pine Flat, Tulare County.

The present rates became effective on July 27, 1976, pursuant to Res. W-1959 which authorized a revenue increase of \$720 or 27%.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of PMWC's summaries of earnings and issued its report dated March 1996. Appendix A shows PMWC's and the Branch's estimated summaries of earnings at present, requested, and adopted rates for the test year 1997. Appendix A also shows differences in operating expenses.

PMWC was informed of the Branch's differing views of revenues, expenses, and rate base and stated that it agreed with the Branch's findings.

PMWC is in violation of Section 454 of the Public Utilities Code in that it raised the rates to its customers by approximately 9-1/2% in 1995 without obtaining authorization from the Commission. Because PMWC was losing and is still losing money, and because it has not requested an increase since 1976, the Branch is not recommending punitive action. The Branch, however, is recommending that PMWC be put on notice; that the Commission does not condone such actions and will institute penalties if similar actions occur in the future.

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PWC also sells water to its neighboring water utility, Pine Flat Water Company (PFWC) which it partially owns, but does not record the amount of sales. It bases its estimate of revenue from water sales to PFWC on changes in the electric power bill after it started selling the water. In the absence of such sales records, it is impossible to estimate the amount of revenue attributable to the PFWC sales. The Branch recommends that PWC record the monthly quantity sales and after obtaining 12 months of data be required to file an advice letter to adjust those revenues.

PWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 13.25%. The summary of earnings in Appendix A shows a rate of return of 13.25% at the Branch's recommended rates. This rate of return is at the midpoint of the 12.75% to 13.75% rate of return range recommended by the Finance Branch for this utility.

PWC's filed tariffs currently contain two rate schedules: Schedule 1, Annual General Metered Service, and Schedule 2AR, Annual Residential Flat Rate Service. PWC would like to convert all customers to the metered schedule, but without water production and sales records, it would be impossible to design the rates. The Branch recommends that PWC cancel the existing meter schedule, maintain production and sales records for a period of at least 12 months, and then file an advice letter, including a new meter schedule, with the Commission, requesting the conversion.

The Branch recommends that all flat rates be increased by the amount of the overall increase.

At the Branch's recommended rates shown in Appendix B, the annual bill for a flat-rate customer will increase from \$84.00 to \$166.20 or 98%. A comparison of customer bills at present and adopted 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 November 20, 1996. The Branch received two letters and one telephone call from customers questioning the need for such a large rate increase, complaining about the water service, and an unauthorized rate increase. The Commission's Consumer Affairs Branch has received two complaints in the last four years.

A public meeting was held on Saturday, December 14, 1996, in the Hot Springs Community Center. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. About 15 customers attended the meeting. Most of the comments and questions were general in nature and dealt with the expenses, investment and profitability of the company. The Branch investigated the issues and concerns raised in the meeting, the complaints and comments in the letters, and is satisfied that PWC is making progress in improving service to its customers.

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There are no outstanding Commission orders requiring system improvements. PMWC has been filing annual reports as required; however, the annual reports have missing data. PMWC also has not made payments of the Public Utilities Commission fees as required by Section 433 of the Public Utilities Code, nor is it current with the Department of Health Services (DHS) fees. PMWC has failed some recent water quality samplings, but is working with DHS to correct that situation. DHS is satisfied with the current situation. PMWC has agreed to pay the PUC fees within 60 days of the effective date of the rate increase.

The Branch recommends that PMWC be ordered to:

1. Pay \$750 to the PUC within 60 days after the new rates become effective.
2. Include in its 1997 Annual Report the information required for "Schedule O - Footage of Pipe" and thereafter monthly water production and sales to PFWC.

The Branch further recommends that PMWC should be put on notice that it must follow the policies of the Commission and other regulatory agencies, including but not limited to DHS.

FINDINGS AND CONCLUSIONS

1. The Branch's recommended summaries of earnings (Appendices A and B) are 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. PMWC should be ordered to bring its PUC surcharge account up to date by paying \$750 to the Commission within 60 days after this resolution goes into effect and to continue to make periodic payments based on the 1-1/2% surcharge in effect based on the billing schedule in effect at that time.
6. PMWC should be ordered to include in its 1997 Annual Report the information required for "Schedule O-Footage of Pipe", and the monthly water production and water sales to PFWC.
7. PMWC should be ordered to cancel the presently effective rate Schedule 1A, Annual General Metered Service.

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8. PFWC should be ordered to file an advice letter before July 1, 1998, to adjust its rates based on 12 months recorded water sales to PFWC.
9. PFWC should be authorized to impose a one-time surcharge of \$5.92 to recover DHS fees incurred during the 36 months prior to filing of its advice letter.
10. PFWC should be ordered to add and/or update the following tariffs, rules and forms: Title Page, Schedule UF, Schedule LC, Rules 5, 7, 8, 10, 11, 15, 16, 19, 20, 21, and Forms 4, 10, A thru E, Connection Fee Data Form, and the Uniform Fire Hydrant Service Agreement. Schedule 5, Public Fire Hydrant Service, should be deleted.
11. PFWC should be put on notice that future violations of Commission and other regulatory agencies rules and regulations such as those enumerated in this report will not be tolerated and could result in monetary penalties to the utility.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 45A for Pine Mountain Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule (2AR, Annual Residential Flat Rate Service) attached to this resolution as Appendix A and concurrently to cancel its presently effective rate Schedules 1A and 2-AR. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Within 60 days after the effective date of this resolution, Pine Mountain Water Company shall pay to the Commission \$750 to bring its 1-1/2% surcharge account up to date and continue to make periodic payments based on the billing schedule in effect at that date.
3. Pine Mountain Water Company shall include with the 1997 Annual Report and thereafter the information required in "Schedule O - Footage of Pipe", and the monthly water production and sales of Pine Flat Water Company.
4. Schedule No. 1A, Annual General Metered Service and Schedule 5, Public Fire Hydrant Service, shall be deleted.
5. On or after July 1, 1998, Pine Mountain Water Company shall file an advice letter to adjust its rates based on its sales to Pine Flat Water Company.
6. Pine Mountain Water Company is authorized to impose a one-time surcharge of \$5.92 to offset the Department of Health Services fee.

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7. Within 60 days after the effective date of this resolution, Pine Mountain Water Company shall file an advice letter adding and/or updating the following tariff, rules and forms: Title Page, Schedule UF, Schedule IC; Rules 5, 7, 8, 10, 11, 15, 16, 19, 20, and 21 and Forms 4, 10, A thru E, Connection Fee Data Form, and the Uniform Fire Hydrant Service Agreement.

8. Pine Mountain Water Company is put on notice that further violations of Commission and other regulatory agency procedures and policies such as those enumerated in this report will not be tolerated and could result in monetary fines or other penalties to the utility.

9. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 9, 1997. The following Commissioners approved it:

Wesley Franklin
WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

APPENDIX A

PINE MOUNTAIN WATER COMPANY

SUMMARY OF EARNINGS
 Test Year 1997

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat	7,300	15,248	7,224	15,248	14,251
Other	2,000	2,112	2,112	2,112	2,112
Total Revenue	9,300	17,360	9,336	17,360	16,363
<u>Operating Expenses</u>					
Purchased Power	5,800	5,800	5,352	5,352	5,352
Materials	100	100	100	100	100
Contract Work (Excl. Water Testing)	2,400	2,400	2,400	2,400	2,400
Water Testing	432	432	432	432	432
Transportation Exp.	500	500	500	500	500
Other Plant Maintenance	200	200	200	200	200
Office Salaries	418	418	418	418	418
Management Salaries	870	870	581	581	581
Office Supplies	100	100	100	100	100
Professional Services	940	940	940	940	940
Regulatory Comm. Exp.	100	100	100	100	100
General Expense	550	550	76	76	76
Total Expenses	12,510	12,510	11,299	11,299	11,299
Depreciation	446	446	446	446	446
Taxes Other than Income	393	393	531	531	531
Income Taxes	800	1,219	800	1,442	1,293
Total Deductions	14,149	14,568	13,077	13,719	13,570
<u>Net Revenue</u>	(4,849)	2,792	(3,741)	3,641	2,793
Average Plant	54,833	54,833	54,833	54,833	54,833
Average Depr. Res.	33,754	33,754	33,754	33,754	33,754
Net Plant	21,079	21,079	21,079	21,079	21,079
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l. & Supplies	0	0	0	0	0
<u>Rate Base</u>	21,079	21,079	21,079	21,079	21,079
<u>Rate of Return</u>	(23.00%)	13.25%	(17.75%)	17.27%	13.25%

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PINE MOUNTAIN WATER COMPANY

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

Tracts No. 416 and 455 in Rainbow Ranch and Tract Nos. 438 and 455, and vicinity, located about one mile east of Pine Flat, Tulare County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>	
For a single-family residential unit, including premises	\$166.20	(I)
For each additional single-family residential unit on the same premises and served from the same service connection.....	\$118.80	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connections not larger than one-inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. As authorized by CPUC, all bills are subject to a one-time surcharge of \$5.92 per connection. This charge offsets the DHS fee as billed to Pine Mountain Water Company for 36 months prior to filing of the advice letter. (N)
|
(N)

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Schedule No. 2AR
(continued)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS

4. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year in accordance with the utility's established billing periods.
5. The established billing cycle is every three months.
6. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charges shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
7. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(END OF APPENDIX B

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PINE MOUNTAIN WATER COMPANY

COMPARISON OF RATES

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

FLAT RATE SERVICE

	<u>Per Connection Per Year</u>		
	<u>Present Rates</u>	<u>Recomm. Rates</u>	<u>Percent Rates</u>
For single-family residential unit, 3/4-inch size, including premises.....	\$ 84.00	\$166.20	97.86%
For each additional single-family residential unit on the same premises and served from same service connection.....	60.00	118.80	97.86%

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PINE MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES
Test Year 1997

Federal Tax Rate: 15%
State Tax Rate (Minimum \$800): 8.84%

Expenses:

1. Purchased Power:

Southern California Edison

1. Rate Schedule: A-1

Effective Date: May 1, 1996

kWh Used	46,600
Energy Charge (\$/kWh)	0.09172
Energy Commission Surcharge (\$/kWh)	0.00020
Customer Charge (\$/Meter/Month)	17.65
Service Charge (\$/HP/Month)	2.05
Number of Meters	2
Total Horsepower	19
Expense (\$)	5,175

2. Rate Schedule: Domestic

Expense (\$) 177

Service Connections

Metered Connection

5/8 x 3/4-inch meter	0
4-inch meter	0
1-inch meter	0
1-1/2-inch meter	0
2-inch meter	0

General Flat Rate Service

Residential

1. For a single-family residential unit unit, including premises	86
2. For each additional single-family residential unit on the same premises and served from the same service connection	0
Total	86

(continued)

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PINE MOUNTAIN WATER COMPANY

ADOPTED INCOME TAX CALCULATIONS
Test Year 1997

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 16,363	\$ 16,363
2.	Expenses	11,299	11,299
3.	Taxes Other Than Income	531	531
4.	Depreciation Expense	466	466
5.	Interest	0	0
6.	Depreciation on Taxed Cont.	0	0
7.	Taxable Income for State Tax	4,086	
8.	State Tax @ 9.3% (\$800 Min.)	800	800
9.	Taxable Income for FIT		3,286
10.	Federal Income Tax @ 15%		493
11.	Total Income Tax		\$ 1,293

(END OF APPENDIX D)