

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4039**
May 21, 1997

R E S O L U T I O N

(RES. W-4039), PINE FLAT WATER COMPANY (PFWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$8,560 OR 48.6% IN
1997.

BY DRAFT ADVISE LETTER ACCEPTED ON NOVEMBER 12, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$8,560 or 48.6% for test year 1997. The increase will provide a 20% return on margin in the test year.

BACKGROUND

PFWC requested authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$13,310 or 80% in 1997. PFWC's request shows 1997 gross revenue of \$16,588 at present rates increasing to \$29,898 at proposed rates to produce a return on margin of 30%. PFWC presently serves 198 flat rate customers in the unincorporated community of Pine Flat, approximately two miles southeast of California Hot Springs, Tulare County.

The present rates became effective on April 2, 1986, pursuant to Res. W-3308, which authorized a revenue increase of \$4,960 or 37.6%.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of PFWC's summaries of earnings and issued its report dated April 1997. Appendix A shows PFWC's and the Branch's estimated summaries 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.

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

PFWC is in violation of Section 454 of the Public Utilities Code in that it raised the rates to its customers by approximately 10.5% in 1994 and 9.5% in 1996 without obtaining authorization from the Commission. The staff, however, does not recommend that the Commission pursue a punitive action, such as imposition of a fine, at this time. Staff recommends that the Commission exercise its prosecutorial discretion in this manner because PFWC is a very small Class D water company lacking rate-making sophistication and has had no previous violations of this kind. In addition, we note that PFWC has not had an increase in rate since 1986, and was losing money. The staff, however, is recommending that PFWC be put on notice that the Commission does not

condone such actions and will institute penalties if similar actions occur in the future.

PFWC purchases water from its neighboring water utility, Pine Mountain Water Company (PMWC) which is a partial owner of PFWC, but does not record the amount of purchases. In the absence of such records, it is impossible to estimate the amount of purchased water expense. The Branch recommends that PFWC be required to record the quantity of monthly water purchases from PMWC and after obtaining 12 months data be required to file an advice letter to adjust those expenses.

PFWC is proposing to install the following plant items:

1. 3,500 feet of six-inch main in 1997 at a cost of \$3,750;
2. a 64,000 gallon steel tank and connecting pipe in 1998 at a cost of \$25,000; and
3. service meters in 1999 at a cost of \$28,000.

The Branch agrees with the installation of these items, but with the following conditions:

1. The existing mains should be ordered to be replaced since they are over 70 years old.
2. In the absence of information regarding the necessary size of the tank, PFWC should be required to obtain approval from the Department of Health Services.

Following the completion of these items and the installation of the service meters, PFWC should be authorized to file advice letters to recover the return on these investments. Since PFWC's new rate base after these additions are approved may be large enough to produce a reasonable return, the Branch recommends that PFWC be allowed the rate of return that will be in effect at the time PFWC files the advice letters requesting recovery of the investments. At the present time, the range of return for Class D water utilities is between 13.50% and 14.50%. In addition, to evaluate the effect of new plant additions, PFWC should be required to file another general rate case within five years from the adoption of the new rates.

PFWC's draft advice letter requested rates which it estimated would produce a return on margin of 30%. The summary of earnings in Appendix A shows a return on margin of 20% at the Branch's recommended rates. This return is the standard return on margin that the Branch has utilized since the Commission adopted the Operating Ratio Method (ORM) in Decision 92-03-093 as an alternative to the standard Return on Ratebase Method for Class C and D water utilities. The ORM provided a net revenue of \$3,991 per year.

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

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conversion when meters have been installed. Branch has reviewed PFWC's tariff schedules and found that PFWC does not have on file and/or has not updated the following rules and schedules: Title Page; Tariff Schedules UF and LC; Tariff Rule Nos. 5, 8, 10, 11, 15, 16, 20, and 21; and Form Nos. 2 through 12.

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 \$86.00 to \$127.80 or 48.6%. 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 November 20, 1996. The Branch received six letters complaining about the need for such a large increase, the quality of service provided and the unauthorized increases. The Commission's Consumer Affairs Branch has received no 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 25 customers attended the meeting. Most of the comments were general in nature and dealt with the expenses, investment, and profitability of the company.

There are no outstanding Commission orders requiring system improvements. PFWC has been filing annual reports as required; however, the annual reports have missing data. Also PFWC 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. Res. W-4013, dated December 20, 1996, authorizes utilities to recover DHS fees paid during the last three years. PFWC has failed some recent water quality samplings, but is working with DHS to correct that situation. DHS is satisfied with the current situation. PFWC has agreed to pay the PUC fees within 60 days of the effective date of the rate increase.

The Branch recommends that PFWC be ordered to:

1. Pay \$1,927 overdue users fee to the PUC within 60 days after the new rates become effective.
2. Include in its 1997 Annual Report the monthly water production and purchases.

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

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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. PFWC should be ordered to bring its PUC surcharge account up to date by paying \$1,927 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 and the billing schedule in effect at that time.
6. PFWC should be ordered to include in its Annual Reports beginning with the 1997 report, the monthly water production and the purchased water expense.
7. PFWC should be ordered to cancel the presently effective rate Schedule 1A, Annual General Metered Service.
8. PFWC should be ordered to replace 3,500 feet of the existing two-inch pipe with six-inch main in 1997.
9. PFWC should be required to obtain approval from DHS before installing a 64,000 gallon storage tank in 1998.
10. PFWC should be authorized to install service meters in 1999.
11. PFWC should be authorized to file advice letters to recover the return on its plant investments after the plant is in service. PFWC should be allowed to earn at the midpoint of the range of rate of return in effect for Class D water utilities at the time of its filings. Such revenue will be in addition to the revenues PFWC will collect under the ORM method.
12. PFWC should be authorized to file an advice letter by July 1, 1998, to adjust its rates based on a 12-month recorded water purchase from PFWC.
13. PFWC should be authorized a one-time surcharge of \$6.00 to recover the DHS fees incurred within 36 months prior to filing of this advice letter.
14. PFWC should be required to file another general rate case within five years from the effective date of this resolution.
15. PFWC should be ordered to add and/or update the following tariffs, rules and forms: Title Page; Tariff Schedules UF and LC; Tariff Rule Nos. 5, 8, 10, 11, 15, 16, 20 and 21; and Form Nos. 2 through 12.

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16. 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 or other penalties to the utility.

IT IS ORDERED that:

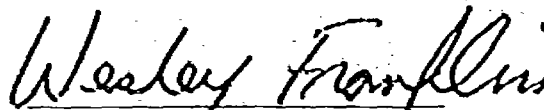
1. Authority is granted under Public Utilities Code Section 454 for Pine Flat Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendix A and concurrently to cancel its presently effective rate Schedule No. 1A and 2AR. 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 Flat Water Company shall pay to the Commission \$1,927 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 Flat Water Company shall include in its Annual Reports the monthly water production and purchases from Pine Mountain Water Company.
4. Schedule No. 1A, Annual General Metered Service, is cancelled.
5. Pine Flat Water Company shall replace 3,500 feet of the existing two-inch pipe with six-inch main in 1997.
6. Pine Flat Water Company shall obtain approval from the California Department of Health Services prior to installing a 64,000 gallon storage tank in 1998.
7. Pine Flat Water Company is authorized to install service meters to its customers beginning in 1999.
8. Pine Flat Water Company is authorized to file advice letters to recover the return on its plant investments after the plants are in service. Pine Flat Water Company shall be authorized to earn at the midpoint of the authorized range in rate of return in effect at that time for Class D water utilities.
9. Within five years after the effective date of this resolution, Pine Flat Water Company shall file another general rate case with the Commission.
10. Pine Flat Water Company is authorized to impose a one-time surcharge of \$6.00 to offset the Department of Health Services fee.
11. Within 60 days after the effective date of this resolution, Pine Flat Water Company shall file an advice letter adding and/or updating the following tariffs, rules and forms: Title Page; Tariff Schedules UF and IC, Tariff Rule Nos. 5, 8, 10, 11, 15, 16, 20 and 21; and Form Nos. 2 through 12.

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

13. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 21, 1997. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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

APPENDIX A

PINE FLAT 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	16,588	29,898	17,630	31,775	26,190
Other	0	0	0	0	0
Total Revenue	16,588	29,898	17,630	31,775	26,190
<u>Operating Expenses</u>					
Purchased Water	2,000	2,000	2,112	2,112	2,112
Purchased Power	7,100	7,100	6,907	6,907	6,907
Materials	300	300	300	300	300
Contract Work (Excl. Water Testing)	4,400	4,400	4,400	4,400	4,400
Water Testing	432	432	432	432	432
Transportation Exp.	700	700	700	700	700
Other Plant Maintenance	1,330	1,330	1,330	1,330	1,330
Office Salaries	1,022	1,022	1,022	1,022	1,022
Management Salaries	2,130	2,130	1,339	1,339	1,339
Office Supplies	505	505	505	505	505
Professional Services	450	450	450	450	450
Regulatory Comm. Exp.	100	100	100	100	100
General Expense	500	500	0	0	0
Total Expenses	20,969	20,969	19,597	19,597	19,597
Depreciation	358	358	358	358	358
Taxes Other than Income	413	413	740	740	740
Income Taxes	800	1,760	800	2,495	1,504
Total Deductions	22,540	23,500	21,495	23,189	22,199
<u>Net Revenue</u>	(5,952)	6,398	(3,865)	8,586	3,991
Average Plant	69,312	69,312	67,437	67,437	67,437
Average Depr. Res.	65,321	65,321	65,321	65,321	65,321
Net Plant	3,991	3,991	2,116	2,116	2,116
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>	3,991	3,991	2,116	2,116	2,116
<u>Rate of Return</u>	(149.14%)	N/A	(182.65%)	305.8%	N/A
<u>Margin</u>	N/A	30%	N/A	N/A	20%

APPENDIX B

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PINE FLAT 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

The unincorporated community known as Pine Flat, and vicinity, located approximately two miles southeast of California Hot Springs, Tulare County.

RATES

Per Service Connection
Per Year

For a residence or business establishment,
including premises, served from each:

3/4-inch service connection	\$127.80	(I)
1-inch service connection	191.68	
1-1/2-inch service connection	255.56	
2-inch service connection	118.80	(I)

SPECIAL CONDITIONS

1. All bills are subject to a one-time surcharge of \$6.00 per connection. This charge offset the DHS fee as billed to Pine Flat Water Company for 36 months prior to filing of the advice letter. (N)
|
(N)

(continued)

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Schedule No. 2AR
(continued)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (continued)

2. 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.
3. The established billing cycle is every three months.
4. 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.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
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PINE FLAT 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</u>	<u>Adopted</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
For a residence or business establishment, including premises, served from each			
3/4-inch service connection	\$ 86.00	\$127.80	48.60%
1-inch service connection	129.00	191.68	48.60%
1-1/2-inch service connection	172.00	255.56	48.60%
2-inch service connection	258.00	383.32	48.60%

(END OF APPENDIX C)

APPENDIX D
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PINE FLAT 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

Rate Schedule: A-1

Effective Date: May 1, 1996

kWh Used

65,688

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

3

Total Horsepower

9.5

Expense (\$)

6,907

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

For a a residence or business establishment,
including premises, served from each:

3/4-inch service connection	192
1-inch service connection	0
1-1/2-inch service connection	5
2-inch service connection	1

Total 198

(continued)

APPENDIX D

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PINE FLAT WATER COMPANY

ADOPTED INCOME TAX CALCULATIONS

Test Year 1997

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$ 26,192	\$ 26,192
2.	Expenses	15,597	15,597
3.	Taxes Other Than Income	740	740
4.	Depreciation Expense	358	358
5.	Interest	0	0
6.	Depreciation on Taxed Cont.	0	0
7.	Taxable Income for State Tax	5,498	
8.	State Tax @ 9.3% (\$800 Min.)	800	800
9.	Taxable Income for FIT		4,698
10.	Federal Income Tax @ 15%		705
11.	Total Income Tax		\$ 1,505

(END OF APPENDIX D)