

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Small Water Branch

RESOLUTION W-4040  
May 21, 1997

RESOLUTION

(RES. W-4040), LUCERNE WATER COMPANY, INC. (LUCERNE).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
\$74,355 OR 25.12% ADDITIONAL REVENUE IN TEST YEAR 1996 AND  
A \$5.60 ONE-TIME SURCHARGE FOR THE RECOVERY OF AN  
UNANTICIPATED EXPENSE MEMORANDUM ACCOUNT  
PRODUCING \$7,000.

BY DRAFT ADVICE LETTER ACCEPTED ON JUNE 22, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$74,355 or 25.12% for test year 1996. This increase will provide a 13.0% return on rate base in the test year.

BACKGROUND

Lucerne Water Company (Lucerne) filed a draft advice letter accepted by the Small Water Branch (Branch) on June 22, 1996 requesting authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$88,647 or 30.70%. The purposes of the rate increase are to recover increased operating expenses and to provide an adequate rate of return. Lucerne's request shows 1996 gross revenues of \$285,305 at present rates would increase to \$372,890 at proposed rates. Lucerne estimates that it will serve approximately 1,244 metered customers in test year 1996. Lucerne serves the community of Lucerne on the northeast side of Clear Lake in Lake County.

The present rates were established on July 18, 1996 by Advice Letter 58, a CPI-U increase of 2.5% authorized by D. 92-03-093. The last General Rate Increase became effective on January 18, 1989 by Res. W-3429, which authorized a general rate increase of \$44,038 or 19.8%.

DISCUSSION

The Branch made an independent analysis of Lucerne's summary of earnings. Appendix A shows Lucerne's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A shows Lucerne's and the Branch's estimated summary of earnings at present, requested, and adopted rates for the test year 1996.

Lucerne was informed of the Branch's differing views of revenues, expenses, and rate base, and stated it agreed with Branch's findings. Lucerne and the Branch both agreed to the summary of earnings as shown in the column headed "Adopted Rates".

To prevent future inconsistencies between the figures adopted by the Commission and Lucerne's annual reports, the Branch recommends that Lucerne be directed to record on its books of account the contribution balance adopted in this resolution, and to reflect this balance in its 1997 Annual Report to the Commission. The balance is \$138,143 as of December 31, 1996.

Lucerne's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 12.50%. The summary of earnings in Appendix A shows a rate of return of 13.00% at the Branch's recommended rates. This is the midpoint of the range of rates of return recommended by the Finance Branch for Class C water companies.

The Accounting and Finance Branch recently investigated the disposition of Safe Drinking Water Bond Act loan surcharges and determined there was a discrepancy between customer surcharges collected and deposited. Lucerne was ordered in Res. F-650, dated September 4, 1996, to redeposit \$33,803, to adjust its rate base to reflect \$157,479 in contributed plant, and to pay \$30,083 in back interest. Lucerne has not paid the interest required in ordering paragraph 2 of Res. F-650. Therefore the Branch further recommends Lucerne should direct a portion of its return, though not less than \$500 per month, toward payment of its interest balance of \$30,083. Lucerne should be required to report to the Water Division annually on its repayment of the interest balance.

In Decision 92711 approving Lucerne's SDWBA loan application, dated February 18, 1981, the Commission required Lucerne to deposit Investment Tax Credits into a surcharge account. Ordering Paragraph 3 of the Decision states:

"Lucerne Water Company shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue and the value of investment tax credits on the plant, as realized."

Lucerne's tax returns show that ITC was credited on the SDWBA plant in 1983, 1984, and 1985. However, because of other business losses, Lucerne only realized \$1,828 in ITC in 1984. Approximately \$48,120 is still accrued in SDWBA-related ITC, adjusted for post-1987 use. Lucerne should be ordered to pay \$1,828 plus interest (\$3,826 total) into its SDWBA account. Lucerne should deposit further ITC when it is realized. Further, as a condition of sale, any acquiring entity should be required to deposit the equivalent of any remaining ITC into the surcharge account.

In 1995, Lucerne was required to conduct a watershed sanitary survey by the Department of Health Services. This unanticipated event cost Lucerne \$7,000. Branch recommends this amount recorded in the unanticipated event memorandum account be repaid to Lucerne by a one-time surcharge of \$5.60 per customer.

Lucerne files its annual reports regularly, and there are no other outstanding Commission orders.

Lucerne's current rate structure is made up of four schedules: Schedule No. 1, General Metered Service; Schedule No. 2AR, Annual Residential Flat Rate Service; Schedule No. 4L, Limited Fire Protection Service; and Schedule No. LC, Late Payment Charge. In its request, Lucerne asked to raise all rates by the system average and to cancel the flat rate tariff that is currently unused. Branch also adopted a rate design that allows 65% of the fixed costs to be recovered in the service charge and 35% in the variable charge. Lucerne's schedule of meter ratios was inconsistent with the Commission's 1991 policy on size

Lucerne DR AI/ABJ/TFS/lj

ratios. Branch designed rates so that service charges are more in line with the 1991 policy but so that no meter size would face more than twice the system average increase.

The rates proposed by the Branch, included herein as Appendix B.

Metered rates for a 5/8 x 3/4-inch metered customer using the average of 111 Ccf (One Ccf is equal to one hundred cubic feet) per year increase from \$229.46 to \$285.95, a 24.62% increase. Rates for larger services increase more steeply due to the change in service charge ratios, though no increase is more than 47.95%. The system average increase is 25.12%. 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 August 13, 1996. One letter was received by the Branch asking that it examine the breakdown of cost between Lucerne Water Company and other entities the Strauss' manage. The Consumer Affairs Branch reports that Lucerne has received 9 informal service complaints in the last four years. Seven of the complaints were for billing problems (rates or amount of bill). One customer complained about utility rules. No complaints have been received since 1995.

On September 18, 1996 a public meeting was held at the community fire station in Lucerne in the service area. The Branch's representative explained Commission rate setting procedures and Lucerne's President Nadine Strauss explained the need for the rate increase. Approximately twenty customers attended the meeting, which also included discussion of a possible sale of the system to the county or another investor. Customers primarily argued against the magnitude of the increase. The customers present stated that service was good. All, including Lucerne's owners, agreed that algal blooms in the Clear Lake source had caused taste and odor problems in the past. Bob Strauss, Lucerne's operation manager, explained that the state of the lake water had forced them to add an activated carbon filter to the treatment process. He also stated that the Department of Health Services would be requiring them to install a second clarifier at a substantial cost in order to meet health standards. He indicated that was one reason they might wish to sell the company.

### 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. Lucerne should record in its books of account and in its 1997 Annual Report to the Commission a contribution balance of \$138,143 as of December 31, 1996.

6. Lucerne should pay out of its return on rate base an amount not less than \$500 per month to its Safe Drinking Water Bond Act loan fund until the balance of \$30,083 is paid to the fund.
7. Lucerne should pay \$3,826 to its Safe Drinking Water Bond Act loan account to comply with ordering paragraph 3 of D. 92711 for ITC realized in 1984 and interest from 1984 to 1996.
8. Lucerne should be allowed to impose a one-time surcharge of \$5.60 per customer to recover the unanticipated cost of a watershed sanitary survey in 1995.
9. As a condition of purchase, any acquiring entity should be responsible for paying into the Safe Drinking Water Bond Act account any unrealized ITC remaining from the 1996 balance of \$48,120 and any remaining balance of interest owed to the fund due to the earlier misplacement of funds.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Lucerne Water Company, Inc. 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 Schedules 1 (General Metered Service), 2AR (Annual Residential Flat Rate Service), and 4L (Limited Fire Protection 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 their filing.
2. Lucerne shall record in its books of account and in its 1997 Annual Report to the Commission a contribution balance of \$138,143 as of December 31, 1996.
3. Lucerne is ordered to pay out of its return on rate base an amount not less than \$500 per month to its Safe Drinking Water Bond Act loan fund until the balance of \$30,083 ordered in Resolution F-650 is paid to the fund.
4. Lucerne is ordered to pay \$3,826 to its Safe Drinking Water Bond Act loan account to comply with ordering paragraph 3 of D. 92711 for ITC realized in 1984 and interest from 1984 to 1996.
5. Lucerne is allowed to impose a one-time surcharge of \$5.60 per customer to recover the unanticipated cost of a watershed sanitary survey in 1995.

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6. As a condition of purchase, an acquiring entity is responsible for paying into the Safe Drinking Water Bond Act account any unrealized ITC remaining from the 1996 balance of \$48,120 and any remaining balance of interest owed under ordering paragraph 3 of this Resolution.

7. This resolution is effective today.

I hereby 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 L. NEEPER  
RICHARD A. BILAS  
COMMISSIONERS

APPENDIX A

Lucerne Water Company, Inc.

SUMMARY OF EARNINGS  
 Test Year 1996

	Utility Estimated		Branch Estimated		Test Year 1996 Recommended
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating revenues</u>					
Metered	\$285,305	\$372,890	\$292,519	\$372,890	\$366,615
Private Fire Protection	1,308	2,370	1,308	1,710	1,673
Public Fire Hydrants	2,153	2,153	2,153	2,153	2,153
Total	288,766	377,413	295,980	376,753	370,335
<u>Operating Expenses:</u>					
Purchased Water	8,811	8,811	8,903	8,903	8,903
Purchased Power	31,496	31,496	31,560	31,560	31,560
Other Volume Related	0	0	20,000	20,000	20,000
Employee Labor	75,088	75,088	50,440	50,440	50,440
Materials	32,500	32,500	10,000	10,000	10,000
Contract Work	11,200	11,200	8,800	8,800	8,800
Transportation	12,152	12,152	12,152	12,152	12,152
Office Salaries	42,900	42,900	18,200	18,200	18,200
Management Salaries	13,000	13,000	53,300	53,300	53,300
Employee Benefits	0	0	11,850	11,850	11,850
Office Services and Rent	0	0	400	400	400
Office Supplies and Expns	11,386	11,386	11,386	11,386	11,386
Professional Services	2,500	2,500	2,500	2,500	2,500
Insurance	25,752	25,752	13,520	13,520	13,520
General Expenses	703	703	703	703	703
Total	267,488	267,488	253,714	253,714	253,714
Depreciation Expense	24,221	24,221	19,259	19,259	19,259
Property Taxes	5,151	5,151	5,151	5,151	5,151
Payroll Taxes	10,711	10,711	10,623	10,623	10,623
Other Taxes and Licenses	1,000	1,000	0	0	0
Income Taxes	800	800	1,765	23,140	21,088
Total Deductions	309,371	309,371	290,512	311,887	309,835
Net Revenue	-20,605	68,042	5,468	64,866	60,500
Average Plant	865,072	865,072	854,384	854,384	854,384
Average Deprec. Reserve	312,520	312,520	318,385	318,385	318,385
Net Plant	552,552	552,552	535,998	535,998	535,998
Less: Advances	0	0	0	0	0
Contributions	54,352	54,352	138,143	138,143	138,143
Plus: Working Cash	20,892	20,892	42,286	42,286	42,286
Mat'l & Suppl	25,244	25,244	25,244	25,244	25,244
Rate Base	544,336	544,336	465,385	465,385	465,385
Rate of Return	-3.79%	12.50%	1.17%	13.94%	13.00%

APPENDIX B  
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Lucerne Water Company, Inc.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lucerne and Vicinity, Lake County

RATES

Quantity Rate:  
 All water, per 100 cu. ft. . . . . \$1.17 (R)

	<u>Per Meter Per Month</u>	<u>SDWBA Monthly Surcharge</u>
Service Charge:		
For 5/8 x 3/4-inch meter . . . . . \$	12.90 (I)	\$4.60
For 3/4-inch meter . . . . .	19.35	6.90
For 1-inch meter . . . . .	29.70	11.50
For 1 1/2-inch meter . . . . .	40.00	23.00
For 2-inch meter . . . . .	55.50	36.80
For 3-inch meter . . . . .	103.00 (I)	69.00

SDWBA SERVICE FEE FOR NEW SERVICE

For 5/8 x 3/4-inch meter . . . . . \$	1,000.00	maximum
For 3/4-inch meter . . . . .	1,000.00	maximum
For 1-inch meter . . . . .	2,500.00	maximum
For 1 1/2-inch meter . . . . .	5,000.00	maximum
For 2-inch meter . . . . .	8,000.00	maximum
For 3-inch meter . . . . .	15,000.00	maximum
For mobile home park space . . . . .	500.00	maximum

The service charge is a readiness-to-serve charge which is applicable to all metered water service and to which is added the charge for water used at the Quantity Rate.

(continued)

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Schedule No. 1  
(continued)

GENERAL METERED SERVICE

SPECIAL CONDITIONS:

1. The SDWBA monthly surcharge for mobile home parks is \$1.85 per space for all size meters. This surcharge is in addition to the regular monthly metered water bill. The monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan authorized by Decision No. 92711. It shall apply only to service rendered on or after December 1, 1981.
2. A late charge will be imposed per schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
4. Collection of the SDWBA monthly surcharge is suspended for six consecutive monthly billing periods beginning December 1, 1996, as ordered in Resolution F-650, dated September 4, 1996.
5. The amount of the Service Fee for New Service shall be equal to the accumulated total of the monthly surcharge that would have been applicable to such service from the effective date of surcharge implementation until the date of new service. The accumulated service fee shall not exceed the maximum charges listed in the table above, and shall only apply to previously unserved lots.
6. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$9.32. This charge offsets the Environmental Protection Agency's adopted National Primary Drinking Water Regulations for water testing and maintenance standards under the Surface Water Treatment Rule for July through December of 1996.
7. All bills are subject to a one-time \$5.60 surcharge to collect the balance of \$7,000 in Lucerne's Unanticipated Event Memorandum Account due to an unexpected watershed sanitary survey required by the Department of Health Services in 1995.
8. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



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Lucerne Water Company, Inc.

Schedule No. 4L

LIMITED PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all private fire protection service.

TERRITORY

Lucerne and vicinity, Lake County

RATES

	Per Month	
For a 4-inch connection .....	\$29.27	(I)
For a 6-inch connection .....	50.95	
For a 8-inch connection .....	72.64	
For a 10-inch connection .....	94.33	(I)

SPECIAL CONDITIONS

1. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to the specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost shall be paid by the applicant. Such payment shall not be subject to refund.
2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C

Lucerne Water Company, Inc.

COMPARISON OF RATES

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

METERED SERVICE:

	Per Meter Per Month		
	<u>Present</u>	<u>Recommended</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter .....	\$ 8.10	12.90	59.26%
For 3/4-inch meter .....	8.92	19.35	116.93%
For 1-inch meter .....	12.15	29.70	144.44%
For 1 1/2-inch meter .....	16.25	40.00	146.15%
For 2-inch meter .....	21.88	55.50	153.66%
For 3-inch meter .....	40.59	103.00	153.76%
Quantity Rate:			
All water, per 100 cu. ft. ....	\$ 1.19	1.17	(1.68%)

Usage for an average residential customer on a 5/8 x 3/4-inch service connection using 154 Ccf per year:

Usage	Present	Recommended	Amount	Percent
<u>100 Cu. Ft</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
111	229.46	285.95	56.49	24.62%

Usage for a customer on a 3-inch service connection using 889 Ccf per year:

Usage	Present	Recommended	Amount	Percent
<u>100 Cu. Ft</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
889	1,545.15	2,285.18	740.03	47.89%

APPENDIX D

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Lucerne Water Company, Inc.

ADOPTED QUANTITIES

Test Year 1996

Expenses:

1.	Purchased Power		
	Vendor	Pacific Gas and Electric Co.	
	Water Treatment Plant and Lake Intake		
	Schedule	A-6P	
	Service Charge	\$18.80 per month	
	Average Quantity Rate (summer)	.1139 per kWh	
	Average Quantity Rate (winter)	.0955 per kWh	
	kWh	289,886	
	Cost	\$31,025	
	Rosemont Booster Pump		
	Schedule	A-1P	
	Service Charge	\$12.00 per month	
	Average Quantity Rate (summer)	.1487 per kWh	
	Average Quantity Rate (winter)	.1019 per kWh	
	kWh	2,936	
	Cost	\$534.56	
	Total Power Cost	\$31,560	
2.	Purchased Water		
	Vendor	Yolo County Flood Prevention District	
	Quantity Charge	\$31.26 per Acre Foot	
	Acre Feet	284.8	
	Total Cost	\$8,903	
3.	Insurance Expense		
	General Liability Insurance	\$7,320	
	Worker's Compensation	3,000	
	Automobile Insurance	3,200	
	Total Insurance Expense	\$13,520	
4.	Ad Valorem Taxes	\$5,151	
	Composite Tax Rate	1.04195%	
	Assessed Valuation	\$494,361	
5.	Payroll Taxes		
	FICA	6.2%	\$7,560
	Medicare	1.45%	1,768
	SUI	2.8%	980
	FUI	0.8%	280
	State Training	0.1%	35
	Total		\$10,623
6.	Water Testing Expenses (in contract work)	\$7,000	

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Lucerne Water Company, Inc.

ADOPTED QUANTITIES  
Test Year 1996

Service Connections

Metered

5/8 x 3/4-inch	1,234
3/4-inch	0
1-inch	11
1 1/2-inch	2
2-inch	2
3-inch	1

Total Metered Customers 1,250

Metered water sales used to design rates 142,495 Ccf

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Lucerne Water Company, Inc.

ADOPTED TAX CALCULATIONS  
Test Year 1996

Line No.	State Tax	Federal Tax
1. Operating Revenue	\$370,335	\$370,335
2. O&M Expenses	253,714	253,714
3. Taxes Other Than Income	15,774	15,774
4. Depreciation	19,259	19,259
5. Interest	0	0
6. Taxable Income for State Tax	81,588	
7. State Tax	7,588	7,588
8. Taxable Income for Federal Tax		74,000
9. Federal Tax		13,500
10. Total Income Tax	21,088	

California Corporate Franchise Rate 9.3%

Federal Income Tax Rates

On first \$50,000 taxable income	15%
On \$50,000 to \$75,000 taxable income	25%
On income over \$75,000	34%