

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
SMALL WATER BRANCH

RESOLUTION NO. W-4042  
JUNE 11, 1997

RESOLUTION

**(RES. W-4042) SONORA WATER COMPANY, (SWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING \$2,044 OR 2.55% ADDITIONAL ANNUAL  
REVENUE.**

**BY DRAFT ADVICE LETTER ACCEPTED ON MAY 8, 1996.**

**SUMMARY**

This resolution grants an increase in gross annual revenues of \$2,044 or 2.55% for test year 1997. The increase will provide a 14.50% rate of return on the rate base in the test year.

**BACKGROUND**

SWC requests 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 \$44,309 or 61.54%. SWC estimates 1996 gross revenues of \$72,000 at present rates would increase to \$116,309 at proposed rates. SWC has 97 connections in the Fairway Acres subdivision and vicinity located about one mile east of Jamestown along State Highway 108 in Tuolumne County.

The present rates were established on January 19, 1991, by Res. W-3537 which authorized an adjusted general rate increase of 7.58% and a rate of return of 10.50%. A requested CPI-U increase filed on March 28, 1995, was rejected on May 15, 1995.

**DISCUSSION**

The Small Water Branch (Branch) made an independent analysis of SWC's summary of earnings. Appendix A presents SWC'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 revenues, expenses, and rate base. SWC used a 1996 test year in its increase request. Since the increase authorized in this resolution will take place in 1997, the Branch's recommendations are based on a 1997 test year. Due to inconsistencies and discrepancies found in both the most recent Annual Report (1995) and in the draft advice letter rate increase request, a financial audit of SWC was conducted by the Water Division's Auditing and Finance Branch (AFB) and incorporated into the Branch's investigation. AFB's, *Report on the Results of the Examination of Sonora Water Company*, (Report) was released in November of 1996.

There were differences in the Branch's and SWC's estimates for average plant in service and average depreciation reserve. Staff had difficulty auditing the plant in service accounts because the only documentation available was limited to accounting ledger sheets. However, staff could not rely on them because the utility ceased recording information on them in 1990. In addition, staff reviewed SWC's annual reports to the Commission and noted that some of the annual report numbers did not match the

accounting ledger sheets. SWC had insufficient and incomplete accounting records and could not provide a clear audit trail to support their plant in service. Therefore, staff developed an alternate reasonable method to reconstruct the plant in service. Staff estimated plant in service numbers for 1989 based on SWC's last general rate case. Resolution W-3433, dated March 8, 1989, adopted average plant for test year 1989 as \$67,265. Staff arrived at \$56,663 for average plant in service and \$28,266 for average depreciation reserve in the test year.

As with the plant in service, accounting records for contributions have not been maintained. In Res. W-3433, contributions in aid of construction was calculated to be \$8,992 and accumulated depreciation on contributions to be \$3,456 as of December 31, 1987. Using a depreciation rate of 2.5% (as used in Res. W-3433), staff calculated net contributions to be \$3,398 in the test year.

To avoid future inconsistencies between the figures adopted by the Commission and SWC's annual reports, the Branch recommends that SWC be required to record on its books of account the utility plant, depreciation reserve and contributions balance upon which the average amounts adopted in this resolution are based, and to reflect them in its 1997 annual report to the Commission. Those amounts are \$56,663 for utility plant, \$27,674 for depreciation reserve, and \$3,510 for net contributions as of December 31, 1996.

SWC purchases all of its water supply from the Tuolumne Water District (TUD). Res. W-2936 which authorized SWC's rates in 1982 also ordered it to maintain a balancing account to track expenses for purchased water. SWC has not maintained this balancing account. SWC filed the current advice letter general rate increase request primarily to meet what it perceived as extreme increases in its costs for purchased water. In reality, although TUD has raised its wholesale water rates several times in the last six years, SWC's costs rose primarily because TUD repaired a defective meter that allowed SWC to pay for less water than it was actually receiving. The Branch's analysis shows that SWC has been underbilled approximately \$150,000 for purchased water since 1983. TUD has informed the Branch that it does not intend to bill SWC for the excess. The Branch believes that this underbilling masked increasing purchased water rates which would have compelled SWC to file for offset rate increases since its last increase in 1989. SWC obtained the benefit of approximately 85% of this underbilling, with its customers benefiting by the remaining 15% in potential rate increases that were not passed through. To avoid this type of windfall profit for the utility occurring in the future, Branch recommends SWC file each month, a report to the Branch indicating amount of water purchased and the amount of water sold in the previous month. The Branch also recommends that SWC be ordered to establish and maintain its purchased water balancing account with an initial balance of zero as of the effective date of this resolution.

AFB conducted a financial audit of SWC and set forth its recommendations as a result of its report. Its recommendations include that SWC should:

- retain canceled checks.
- retain all source documents such as invoices and billing vouchers,
- maintain records for plant in service and contributions in aid of construction.
- record new connections as contributions in aid of construction if the new customer is assessed a properly tariffed connection fee.
- account for customer deposits separate from water revenues.
- maintain records which would provide a clear audit trail from the general ledger to the annual report.
- file an advice letter to update its tariff on customer deposits and refund the difference between the \$100 and the updated amount, if necessary.
- stop assessing the \$1,000 hook-up fee which is not authorized in its tariffs.
- follow its tariffs and treat all ratepayers consistently in regards to connection fees, monthly service charges, and finance charges.
- treat Mill Villa as it treats all other customers and stop paying for water breaks beyond SWC's responsibility.
- properly reflect all disbursements in its accounting records.

- maintain its book of accounts using the accrual method of accounting.
- record expenses consistently.

SWC was informed of the Branch's differing views of revenues, expenses and rate base and has stated that it accepts the Branch's estimates.

SWC's draft advice letter requests rates that it estimates would produce an operating ratio of 20%. The summary of earnings in Appendix A shows a rate of return of 14.50% at Branch's recommended rates which is the high end of the current range of 13.50% to 14.50% for Class D water companies recommended by the AFB. Under guidelines established in Commission Decision (D.) 92-03-093, dated March 31, 1992, Commission's 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. The operating ratio method was made available for small water utilities whose rate bases are usually very low with much of the utility plant being either contributed or almost entirely depreciated. The reason SWC's rate base is relatively low is due to little utility plant investment. It produces no water of its own (purchases all of its water from TUD), it does not have to pump water (no power costs - it receives the TUD water at adequate pressures) and it does not have to treat the water (purchases treated water). SWC merely wheels the water from TUD to its customers. In view of this, Branch believes the use of the traditional rate base/return method is reasonable in this case.

SWC's filed tariffs contain three rate schedules: 1A, Annual Metered Service; 4, Private Fire Protection, and 5, Public Fire Hydrant Service. Schedule 5 should be deleted. Branch proposes to increase general metered rates by increasing both the service charge and quantity charges by the system average increase authorized in this resolution. Branch has reviewed SWC's tariff schedules and found that it does not have on file and/or has not updated the following rules: Title Page, Rules 5, 8, 9, 10, and 11; Forms 2, 4, 10, and A thru E.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a typical metered residential customer using 1,200 cubic feet of water per month would increase from \$23.20 to \$23.87. A comparison of customer bills at present and recommended rates is shown in Appendix C.

SWC proposes to inspect and either repair or replace its 100,000 gallon steel storage tank at an approximate cost ranging from \$20,000-\$40,000 to repair and \$50,000-\$60,000 to replace. Branch believes this investment to be prudent and recommends that SWC be authorized to file an advice letter rate increase to recover costs associated with the tank repair or replacement once the repair or replacement is completed.

#### **NOTICE AND PROTESTS**

A notice of the proposed rate increase was mailed to each customer on August 1, 1996. One complaint was received by the Branch regarding living on a fixed income and how increased costs impact their standard of living.

On September 18, 1996, a public meeting was held at 18717 Mill Villa Road in SWC's service area. The Branch's representative explained Commission rate setting procedures and SWC's representative explained the need for the rate increase. Four of the utility's customers attended the meeting, and some of them expressed a concern for the increasing rates. None of the customers expressed dissatisfaction with the quality or quantity of water, nor with the utility's service.

Over the past three years there have been 5 complaints received by the CPUC's Consumer Affairs Branch (CAB). None of the complaints received by CAB have been in the last 2 years. The old complaints were resolved to both the utility's and ratepayers satisfaction. There are no outstanding Commission orders requiring system improvements. According to the California Department of Health Services, SWC's water meets all applicable state health standards.

### 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 authorized.
3. The quantities (Appendix D) used to develop the Branch recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Branch suggests that the recommendations made by the AFB report be ordered. The AFB recommendations are:
  - retain canceled checks.
  - retain all source documents such as invoices and billing vouchers.
  - maintain records for plant in service and contributions in aid of construction.
  - record new connections as contributions in aid of construction if new customer is assessed a properly tariffed connection fee.
  - account for customer deposits separate from water revenues.
  - maintain records which would provide a clear audit trail from the general ledger to the annual report.
  - file an advice letter to update its tariff on customer deposits and refund the difference between the \$100 and the updated amount, if necessary.
  - stop assessing the \$1,000 hook-up fee which is not authorized in its tariffs.
  - follow its tariffs and treat all ratepayers consistently in regards to connection fees, monthly service charges, and finance charges.
  - treat Mill Villa as it treats all other customers and stop paying for water breaks beyond SWC's responsibility.
  - properly reflect all disbursements in its accounting records.
  - maintain its book of accounts using the accrual method of accounting.
  - record expenses consistently.
6. SWC should be ordered to reimburse all residential customers who paid amounts exceeding actual cost of the hookup.
7. Schedule 5, Public Fire Hydrant Service, should be discontinued.
8. SWC should record on its books of account the utility plant, depreciation reserve and contributions balance upon which the average amounts adopted in this resolution are based, and reflect them in its annual report to the Commission.
9. SWC should establish and maintain a purchased water balancing account with a balance of zero as of the effective date of this resolution.
10. SWC should report to the Small Water Branch no later than six months from the effective date of this resolution indicating the status of the excess water loss issue.
11. SWC should be authorized to file an advice letter rate increase to recover costs associated with the tank repair or replacement once the project is completed.
12. Any offset increase request should be analyzed using a 14.50% return on investment.
13. SWC should be required to file, each month, a report to the Small Water Branch indicating amount of water purchased and amount of water sold in the previous month. This requirement should be required until the next general rate case when the policy could be reviewed.
14. SWC should be ordered to add and/or update the following tariffs, rules, and forms: Title Page, Rules 5, 8, 9, 10, and 11; Forms 2, 4, 10, and A thru E.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Sonora Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedules 1A and 4. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be five days after the date of filing.
2. Sonora Water Company shall record on its books of account the utility plant, depreciation reserve and contributions balance upon which the average amount adopted in this resolution are based, and shall reflect them in its 1997 annual report to the Commission.
3. Sonora Water Company shall delete Schedule No. 5, the Public Fire Hydrant Service.
4. Sonora Water Company shall establish and maintain a purchased water balancing account with a balance of zero as of the effective date of this resolution.
5. The following AFB recommendations shall be executed:
  - retain canceled checks.
  - retain all source documents such as invoices and billing vouchers.
  - maintain records for plant in service and contributions in aid of construction.
  - record new connections as contributions in aid of construction if new customer is assessed a properly tariffed connection fee.
  - account for customer deposits separate from water revenues.
  - maintain records which would provide a clear audit trail from the general ledger to the annual report.
  - file an advice letter to update its tariff on customer deposits and refund the difference between the \$100 and the updated amount, if necessary.
  - stop assessing the \$1,000 hook-up fee which is not authorized in its tariffs.
  - follow its tariffs and treat all ratepayers consistently in regards to connection fees, monthly service charges, and finance charges.
  - treat Mill Villa as it treats all other customers and stop paying for water breaks beyond Sonora's responsibility.
  - properly reflect all disbursements in its accounting records.
  - maintain its book of accounts using the accrual method of accounting.  
record expenses consistently.
6. Any offset advice letter filing should be analyzed using a 14.50% rate of return.
7. Sonora Water Company is authorized to file for an advice letter rate increase to recover the costs associated with the tank repair or replacement once the project is completed.
8. Within 60 days after the effective date of this resolution, Sonora Water Company shall file an advice letter and and/or updating the following tariffs, rules, and forms: Title Page; Rules 5, 8, 9, 10, and 11; Forms 2, 4, 10, and A thru E
9. Sonora Water Company shall submit a monthly report to the Branch indicating amount of water purchased and the amount of water sold in the previous month.
10. Within 120 days from the effective date of this resolution, Sonora Water Company shall refund all amounts it collected in excess of actual hook-up cost.

11. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 11, 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

Sonora Water Company  
Summary of Earnings  
Test Year 1997

Item	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Proposed	
<b>Operating Revenue</b>					
Metered	72,000	116,309	79,904	81,948	81,948
Private Fire Protection			384	390	390
<b>Total Revenue</b>	<b>72,000</b>	<b>116,309</b>	<b>80,288</b>	<b>82,338</b>	<b>82,338</b>
<b>Operating Expenses</b>					
Purchased Water	40,000	40,000	56,464	56,464	56,464
Other Vol. Related exp.	2,500	2,500	0	0	0
Materials	10,000	10,000	0	0	0
Contract Work	0	0	12,750	12,750	12,750
Water Testing	2,000	2,000	500	500	500
Transportation Expense	5,500	5,500	200	200	200
Other Plant Maintenance	1,000	1,000	650	650	650
Management Salaries	0	0			
Shareholder Salaries	10,000	10,000	0	0	0
Employee Labor	0	0	0	0	0
Uncollectible Expense	0	0	0	0	0
Office Service and Rentals	0	0	0	0	0
Office Supplies and Expense	2,200	2,200	1,300	1,300	1,300
Professional Services	12,000	12,000	775	775	775
Insurance	3,600	3,600	1,250	1,250	1,250
Regulatory Expense		0	150	150	150
General Expense	1,000	1,000	850	850	850
<b>Subtotal</b>	<b>89,800</b>	<b>89,800</b>	<b>74,889</b>	<b>74,889</b>	<b>74,889</b>
Depreciation Expense	1,392	1,392	959	959	959
Other than income tax	1,161	1,161	361	361	361
Income Taxes	800	5,486	1,116	1,599	1,599
<b>Total Deductions</b>	<b>93,153</b>	<b>97,839</b>	<b>77,325</b>	<b>77,808</b>	<b>77,808</b>
<b>Net Revenue</b>	<b>(21,153)</b>	<b>18,470</b>	<b>2,963</b>	<b>4,530</b>	<b>4,530</b>
<b>Rate Base</b>					
Average Plant	61,714	61,714	56,663	56,663	56,663
Average Depreciation Reserve	28,878	28,878	28,266	28,266	28,266
Net Plant	32,836	32,836	28,397	28,397	28,397
Less: Advances	0	0	0	0	0
Less: Contributions	0	0	3,398	3,398	3,398
Plus: Working Cash	0	0	6,241	6,241	6,241
Plus: Material & Supplies	0	0	0	0	0
<b>Rate Base</b>	<b>32,836</b>	<b>32,836</b>	<b>31,240</b>	<b>31,240</b>	<b>31,240</b>
<b>ROR = Net Rev/Rate Base</b>	<b>(64.42)%</b>	<b>56.25%</b>	<b>9.67%</b>	<b>14.50%</b>	<b>14.50%</b>

**Appendix B**  
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**Schedule No. 1A**  
**Sonora Water Company**

**Annual Metered Service**

*Applicability*

Applicable to all metered water service furnished on an annual basis.

*Territory*

Fairway Acres and vicinity, located approximately one mile east of Jamestown in Tuolumne County.

*Rates*

All Water, per 100 cu. ft.	\$1.399	(I)
Annual Service Charge:	Per Meter	
	Per Year	
For 5/8 x 3/4-inch meter .....	\$85.10	(I)
For 3/4-inch meter .....	203.30	
For 1-inch meter .....	361.90	
1.5-inch meter .....	431.85	
2-inch meter .....	533.15	
3-inch meter .....	645.55	
4-inch meter .....	880.30	(I)

The annual service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

*Special Conditions*

1. The established billing cycle for water used is monthly.
2. All bills are subject to the reimbursement fee set forth on Schedule UF.



**Appendix B**  
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**Sonora Water Company**  
**Schedule No. 4**

**Private Fire Protection Service**

*Applicability*

Applicable to all water service furnished to privately owned fire protection systems.

*Territory*

Fairway Acres and vicinity, approximately one mile east of Jamestown, Tuolumne County.

*Rate*

Per Service Connection  
Per Month

For each inch of diameter of service connection .....\$3.30 (1)

*Special Conditions*

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. 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 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 with the cost paid by the applicant. Such payment shall not be subject to refund.
5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

Appendix C

Sonora Water Company

Comparison of Rates

	Per Service Connection Per Year		
	Present Rates \$\$	Recommended Rates \$\$	% Increase
<b>Metered Rate Service</b>			
<b>Service Charge:</b>			
5/8 x 1/4-inch meter	83.00	85.10	2.5
3/4-inch meter	198.30	203.30	2.5
1-inch meter	353.00	361.90	2.5
1 1/2-inch meter	421.20	431.85	2.5
2-inch meter	520.00	533.15	2.5
3-inch meter	629.65	645.55	2.5
4-inch meter	858.60	880.30	2.5
<b>Quantity Charge</b>			
All water, per 100 cu.ft.	1.364	1.399	2.5

A monthly comparison bill for a customer with a 5/8 x 1/4-inch meter is shown below:

Monthly Usage 100 cu. ft.	Present Bills \$	Recommended Bills \$	Amount Increase \$	Percent Increase %
0	6.92	7.09	0.17	2.5
5	13.74	14.09	0.35	2.5
10	20.56	21.08	0.52	2.5
<b>12 Average use</b>	<b>23.29</b>	<b>23.87</b>	<b>0.58</b>	<b>2.5</b>
15	27.38	28.08	0.70	2.5
20	34.20	35.07	0.87	2.5
30	47.84	49.06	1.22	2.5
50	76.12	77.04	1.92	2.5

**Appendix D**  
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**Sonora Water Company**  
**Adopted Quantities**  
**Test Year 1997**

**Taxes**

Federal Tax Rate .....	15%
State Tax Rate .....	8.84%
Local Franchise Rate .....	0%
<b>Ad Valorem Taxes</b>	
Tax Rates .....	1.0103%
.....	1.0095%
Assessed Value .....	\$35,782
Total .....	\$361

**Expenses**

**Purchased water**

Seller: Tuolumne Utility District  
Schedule: Residential Metered Service Treated Water

Monthly Rates:	1996-97	1997-98	1998-99	1999-2000
	\$\$	\$\$	\$\$	\$\$
Cost of Service Charge	81.15	84.40	87.80	91.31
Quantity Charge	Per Ccf	Per Ccf	Per Ccf	Per Ccf
First 1,500 Ccf.	0.77	0.80	0.83	0.87
Next 3,500 Ccf.	0.88	0.92	0.96	0.99
Over 5,000 Ccf	1.04	1.08	1.12	1.17

**Payroll**

Management Salary .....	10,750
Contract Labor .....	2,000
Water Testing (contract labor) .....	\$500
<b>Insurance Expenses</b>	
General Liability and T&D System .....	1,250

**Appendix D**

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**Adopted Quantities**

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**Sonora Water Company  
Test Year 1997**

**Service Connections**

*Metered Rate:*

5/8 x 1/4-inch .....	73
1-inch.....	13
2-inch.....	10
3-inch.....	1
Total metered.....	97

Metered water sales used to design rates.....46,500 Ccf

**Adopted Tax Calculations**

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**Sonora Water Company  
1997 Test Year**

Line	Item	State Tax \$\$	Federal Tax \$\$
1.	Operating Revenues	82,338	82,338
2.	Expenses	74,889	74,889
3.	Taxes other than Income	361	361
4.	Depreciation Expense	959	959
5.	Interest	none	none
6.	Taxable Income for State Tax	6,129	
7.	State Tax (at 8.84% or \$800)	800	
8.	Taxable Income for FIT		5,329
9.	Federal Income Tax (at 15%)		799
10.	Total Income Taxes		1,599