

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION  
Small Water Branch**

**RESOLUTION NO. W-4045  
June 25, 1997**

**RESOLUTION**

**(RES. W-4045), FULTON WATER COMPANY (FWC). ORDER  
AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUES OF \$33,349 or 13.50%  
IN 1997.**

**BY DRAFT ADVICE LETTER FILED ON MARCH 5, 1997.**

**SUMMARY**

This Resolution grants an increase in gross annual revenues of \$33,349 or 13.50% for test year 1997. This increase will provide a 13.00% rate of return on rate base in the test year.

**BACKGROUND**

FWC 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 \$90,200 or 36.36% in 1997. at FWC's request shows 1997 gross revenue of \$248,100 at present rates increasing to \$338,300 proposed rates.

FWC provides domestic water service to 864 residential flat-rate customers and provides fire protection water service to 51 fire hydrants in an unincorporated area, including the subdivisions known as Lake Forest Unit No. 2, Ridgewood Highlands, Ridgewood, Fulton Acres, Camelian Heights, Larson's Survey, and Caledonia Circle. Also, the East Half of the NW quarter of Section 21 T16N, R17E, M.D.B.M. all near Camelian Bay, Lake Tahoe, Placer County.

The present rates were established on November 6, 1995, by Decision (D.) 95-10-015 which authorized a general rate increase of \$60,422 or 33.46%, and a rate of return of 11.8%.

**DISCUSSION**

The Small Water Branch (Branch) made an independent analysis of FWC's operations and issued its report in June, 1997. Appendix A shows FWC's and the Branch's estimates of the summary of earnings at present, requested and adopted rates for the test year. Appendix A shows differences between FWC's and the Branch's estimates in operating revenues and operating expenses.

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FWC was informed of the Branch's differing views of revenues and expenses and stated that it accepts the Branch's estimates.

FWC's draft advice letter requested rates that it estimated would produce a return on rate base of 12.5%. The Summary of Earnings in Appendix A shows a rate of return of 13.00% at Branch's recommended rates. This rate of return is the midpoint of the range of 12.50% and 13.50% recommended by the Accounting and Finance Branch of the Commission's Water Division for Class C Water Utilities.

Under guidelines established in D. 92-03-093, the Commission staff must calculate net revenues by both the rate base/return method and the operating ratio method, selecting the method that produces the most revenue. Using a 20% operating ratio in the operating ratio method calculation, the rate base/return method produces greater revenue in this case.

FWC's filed tariff currently contains two separate rate schedules - 1A, Annual General Metered Service, and 2RA, Annual Residential Flat Rate Service. Branch has reviewed FWC's tariff schedules and found that FWC does not have on file and/or has not updated the following rules and schedules: Schedule LC (Late Payment Charge), Rules 9, 1, 11, 20, and 21, and Forms 2, 4, 10, and A through E.

At the Branch's recommended rates shown in Appendix B, the yearly bill for a typical 3/4-inch flat rate customer will increase from \$281.00 to \$318.93 or 13.50%. There are currently no metered customers in the system. A comparison of customer bills at present and recommended rate is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

On March 4, 1994 (and later amended on August 25, 1994), FWC filed Application 94-03-007 in order to obtain a loan of \$800,000 in order to finance plant additions to bring its water system into compliance with the Federal Safe Drinking Water Act. FWC filed this application because the Department of Health Services (DHS) found applicant's chlorination treatment of surface water did not comply with the Surface Water Treatment Regulations (Regulations). On July 13, 1993, the DHS issued an order requiring FWC to comply (Compliance Order Number 01-047) with the Regulations by September 30, 1995. Failure to comply with DHS' order would make FWC subject to additional enforcement action, including penalties as specified in California Health and Safety Code § 4037.5.

D 95-10-015 authorized FWC to borrow \$800,000 from CoBank and to include the plant financed with such borrowings in ratebase. D 96-02-032 authorized FWC to make semi-annual ratebase offset filings as portions of the new construction are placed in service.

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FWC proposes to install a filtration plant using disposable bag filters. Although construction of the new filtration plant was suppose to have begun in May 1997, FWC has not yet been able to obtain the approval of the bag filtration by the DHS.

Although FWC is currently requesting operating expenses for the future plant, the Branch feels that until the filtration plant is in operation, such expenses are not warranted. The Branch will, however, allow such expenses as soon as FWC is able to obtain approval of the bag filtration system by the DHS and the system is in operation. FWC is requesting \$30,000 for a water treatment plant operator, which the Branch finds reasonable. FWC also estimates that the cost of the filter bags will range from \$26,880 to \$40,320 in test year 1997 based on \$40 and \$60 per bag each processing about 200,000 gallons of water (estimated 134.4 million gallons of water production in 1997).

At the time that FWC is able to obtain approval of the bag filtration system and place it into operation, the price of filter bags will be better defined. At that time, FWC should be able to file for an advice letter rate increase to offset the actual costs to operate the system.

#### NOTICE AND PROTESTS

A notice of the proposed general rate increase was mailed to each customer on March 24, 1997. Six letters protesting the increase were received by the Branch. The Consumer Affairs Branch (CAB) reports that FWC has received nine complaints since the beginning of 1991. There were four service complaints and the rest dealt with rates and other miscellaneous issues. FWC averages around 2 complaints per year in the last 5 years. All complaints are handled in a timely manner.

On Tuesday, April 22, 1997, a public meeting was held at the Kings Beach Convention Center, located at 8318 North Lake Blvd., at 7:00 P.M. Tom Smegal, staff engineer, explained Commission rate-setting procedures, and FWC's representatives, Jack Gibbons and John Fulton, explained the reasons for the proposed increase. Two customers attended the meeting. Both asked questions regarding the proposed plant and both agreed that the construction of the plant was necessary. The meeting adjourned at 7:50 P.M.

#### FINDINGS AND CONCLUSIONS

1. The summary of earnings (Appendix A) developed by the Branch is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.

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3. The quantities (Appendix D) used in preparation of this report are reasonable and should be adopted.
4. At the time that FWC is able to obtain approval of its filtration system and the system is placed into operation, FWC should be able to file an advice letter rate increase request to offset the actual costs to operate the system. If the filtration system goes into effect, the following changes will take place:
  - a) Cost of new filtration system (increase in amount between \$26,880 and \$40,320).
  - b) Hiring of water plant operator (increase of \$30,000 less \$7,200 currently allowed for a net increase of \$22,800).
  - c) Decrease to Employee Labor (a change from \$12,773 to \$8,000)
  - d) Increase to payroll taxes (a change from \$6,728 to \$7,730)
  - e) Increase to state and federal taxes.
5. The rate increase proposed by the Branch is justified, and the resulting rates are just and reasonable.
6. FWC should be ordered to add and/or update the following tariffs: rules, and forms: Schedule LC (Late Payment Charge); Tariff Rules 9, 10, 11, 20, and 21; and Forms 2, 4, 10, and A through E.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Fulton Water 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 schedules - 1A, Annual General Metered Service, and 2RA, Annual Residential Flat Rate 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. At the time that FWC is able to obtain approval of its filtration system and the system is placed into operation, FWC may file an advice letter rate increase request to offset the actual costs to operate the system.
3. Within 60 days after the effective date of this resolution, Fulton Water Company shall file an advice letter adding and/or updating the following tariffs, rules, and forms: Schedule LC, (Late Payment Charge); Tariff Rules 9, 10, 11, 20, and 21; and Forms 2, 4, 10, and A through E.
4. The rate increase proposed by the Branch is justified, and the resulting rates are just and reasonable.

June 25, 1997

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 25, 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  
 FULTON WATER COMPANY  
 SUMMARY OF EARNINGS  
 Test Year 1997**

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b><u>Operating Revenue</u></b>					
Flat Rates	\$248,100	\$338,300	\$247,066	\$280,415	\$280,415
<b><u>Operating Expenses</u></b>					
Power	34,450	34,450	34,450	34,450	34,450
Water Treatment	5,000	5,000	5,000	5,000	5,000
Water Treatment (new plant)	40,320	40,320	0	0	0
Treatment Plant Operator (new)	30,000	30,000	0	0	0
Treatment Plant Operator (old)	0	0	7,200	7,200	7,200
Signal Lines	2,850	2,850	2,850	2,850	2,850
Employee Labor	8,000	8,000	12,773	12,773	12,773
Materials	14,000	14,000	13,580	13,580	13,580
Contract Work	18,000	18,000	18,000	18,000	18,000
Water Testing	6,500	6,500	6,500	6,500	6,500
Transportation Exp.	5,000	5,000	5,000	5,000	5,000
Office Salaries	3,600	3,600	3,600	3,600	3,600
Management Salaries	33,000	33,000	33,000	33,000	33,000
Employee Benefits	6,000	6,000	6,000	6,000	6,000
Office Rental	3,600	3,600	3,600	3,600	3,600
Office Suppl. & Exp.	3,500	3,500	3,500	3,500	3,500
Professional Services	7,500	7,500	7,500	7,500	7,500
Insurance	6,000	6,000	5,442	5,442	5,442
Regulatory Comm. Exp.	1,800	1,800	1,000	1,000	1,000
General Expenses	3,500	3,500	3,500	3,500	3,500
<b>Subtotal</b>	<b>\$232,620</b>	<b>\$232,620</b>	<b>\$172,495</b>	<b>\$172,495</b>	<b>\$172,495</b>
Depreciation Expense	\$23,451	\$23,451	\$23,451	\$23,451	\$23,451
Property Taxes	3,069	3,069	2,550	2,550	2,550
Payroll Taxes	7,121	7,121	6,728	6,728	6,728
Permits	50	50	50	50	50
State Income Tax	800	6,335	3,694	6,642	6,642
Federal Income Tax	0	11,413	5,715	12,125	12,125
<b>Total Deductions</b>	<b>\$267,111</b>	<b>\$284,059</b>	<b>\$214,683</b>	<b>\$224,041</b>	<b>\$224,041</b>
<b><u>Net Revenue</u></b>	<b>(Loss)</b>	<b>\$54,241</b>	<b>\$32,383</b>	<b>\$56,374</b>	<b>\$56,374</b>
<b><u>Rate Base</u></b>					
Average Plant	769,342	769,342	769,342	769,342	769,342
Avr. Accum. Deprec.	322,680	322,680	322,680	322,680	322,680
Net Plant	446,662	446,662	446,662	446,662	446,662
Less: Contributions	11,215	11,215	11,215	11,215	11,215
Advances	1,800	1,800	1,800	1,800	1,800
<b>Rate Base</b>	<b>\$433,647</b>	<b>\$433,647</b>	<b>\$433,647</b>	<b>\$433,647</b>	<b>\$433,647</b>
<b><u>Rate of Return</u></b>	<b>(Loss)</b>	<b>12.51%</b>	<b>7.47%</b>	<b>13.00%</b>	<b>13.00%</b>

APPENDIX B

FULTON WATER COMPANY

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

An area located approximately one mile southwest of Carnelian Bay, Lake Tahoe, Placer County.

RATES

	Per Meter	
	Per Month	
Quantity Rate:		
All Water used per 100 cu. ft.....	\$1.55	(1)
Service Charge:		
For 5/8 x 3/4-inch meter	\$113.50	(1)
For 3/4-inch meter	\$124.85	
For 1-inch meter	\$170.25	
For 1-1/2 inch meter	\$238.35	
For 2-inch meter	\$312.12	
For 3-inch meter	\$544.79	
For 4-inch meter	\$777.46	(1)

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

APPENDIX B

FULTON WATER COMPANY

Schedule No.2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

An area located approximately one mile southwest of Carnelian Bay, Lake Tahoe, Placer County.

RATES

Per Service Connection  
Per Year

For a single-family residential unit, including premises:

Served through a 3/4 - inch service.....	\$318.93	(1)
1 - inch service.....	\$531.17	1
1 - 1/2 - inch service.....	\$1,061.21	(1)

For each additional single-family residential unit on the same premises and served from the same connection.....

\$202.03 (1)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day.

(continued)



**APPENDIX C**  
**FULTON WATER COMPANY**  
**COMPARISON OF RATES**

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

Yearly bill for a 3/4-inch flat rate customer:

Per Meter Per Year			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$281.00	\$318.93	\$37.93	13.50%

Yearly bill for a 1-inch flat rate customer:

Per Meter Per Year			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$468.00	\$531.17	\$63.17	13.50%

Yearly bill for a 1-1/2 inch flat rate customer:

Per Meter Per Year			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$935.00	\$1,061.21	\$126.21	13.50%

Comparison of average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using 1,200 cubic feet of water:

Per Meter Per Month			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$24.77	\$28.06	\$3.29	13.28%

APPENDIX D

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FULTON WATER COMPANY

ADOPTED QUANTITIES

Test Year 1997

Expenses:

1. Purchas ed Power (Electric)

Vendor	Sierra Pacific Power Company
Schedules	A-1
Effective Date	6/1/96
Total Cost (\$)	\$34,444
kWh Used	380,775
Customer Charges (per month)	\$8.00
Total Energy Charges (per kWh)	\$0.08771
California Surcharges	\$0.00032

2. Purchas ed Water

None

3. Insurance Expenses

Liability	\$2,044
Fire	\$721
Compensation	\$1,471
Automobile	\$1,206
Total Cost	\$5,442

4. Ad Valorem Taxes

Composite Tax Rate	\$2,550
Assessed Value	1.0520%
	\$242,290

APPENDIX D  
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FULTON WATER COMPANY

ADOPTED QUANTITIES

Test Year 1997

5. Payroll Taxes		\$6,728
Social Security		\$4,328
Federal Unemployment		\$1,883
State Unemployment		\$486
State Unemployment Training		\$31
6. Number of Service Connections:		
Flat Rate		
3/4-inch service	850	
1-inch service	4	
1-1/2-inch service	4	
Additional services -		
2 units	5	
3 units	1	
Total	864	
7. Water Sales, Gallons		131,426,900

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FULTON WATER COMPANY

ADOPTED QUANTITIES

Test Year 1997

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$280,415	\$280,415
2.	O & M Expenses	\$172,495	\$172,495
3.	Taxes Other Than Income	\$9,328	\$9,328
4.	Deprecation	\$23,451	\$23,451
5.	Taxable Income for State Tax	\$75,141	
6.	State Tax	\$6,642	
7.	Taxable Income for FIT		\$68,499
8.	Federal Income Tax		\$12,125
9.	Total Income Tax		\$18,767
	California Corporate Franchise Rate	8.84%	
	Federal Income Tax Rate		
	On first \$50,000 of taxable income	15%	
	On next \$25,000 of taxable income	25%	