

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Large Water Branch

RESOLUTION NO. W-4054
August 1, 1997

R E S O L U T I O N

(RES. W-4054), BISHOP WATER COMPANY (BWC),
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$15,012 OR 15.77% ADDITIONAL ANNUAL REVENUE.

BY DRAFT ADVICE LETTER ACCEPTED ON APRIL 23, 1997.

SUMMARY

This Resolution authorizes BWC to increase annual revenues by \$15,012 or 15.77% for 1997. The increase will result in a rate of return of 9.03% for BWC.

BACKGROUND

BWC 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 \$85,132 or 89.44% (\$15,012 or 15.77% in 1997, and \$70,120 or 63.44% in 1998). The purpose of the rate increase is to recover increased operating expenses and plant investments, and to earn an adequate rate of return. BWC serves approximately 135 customers in Laguna Seca Ranch Estates, and vicinity; Monterey County.

The present rates became effective on May 6, 1996, pursuant to Decision 92-03-093.

DISCUSSION

The Large Water Branch (LWB) made an independent analysis of BWC's operations and issued its report in July 1997. Appendix A shows BWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for the test year. Appendix A also shows difference in rate base.

BWC was informed of the LWB's differing views of rate base and it stated that it accepts the LWB's estimates.

BWC's draft advice letter requested rates that would produce a return on rate base of 9.03% for the test years 1997 and 1998. The summary of earnings in Appendix A also shows a rate of return of 9.03% at LWB's recommended rates. This rate of return is lower than the range of 13.50% to 14.50% recommended by the Finance Branch of the Water Division for Class D water utilities. Under guidelines established in Commission Decision (D.) 92-03-093, Commission 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. Using a 20% operating ratio in the operating ratio method calculation, the operating ratio method produces greater revenues in this case. The 9.03% rate of return requested by BWC reflects the rate of return

August 1, 1997

authorized by the Commission in D.96-12-005 for California-American Water Company's (Cal-Am) Monterey Division for 1997, 1998, and 1999. Since Cal-Am and BWC have a pending application before the Commission for annexation of BWC's service area by Cal-Am's Monterey Division, and BWC knowingly chose to request the lower rate of return than it would otherwise be entitled to, LWB recommends a rate of return of 9.03% for 1997 and 1998 for BWC.

BWC has requested to increase \$70,120 or 63.44% in the test year 1998 to recover \$450,000 plant investments (\$365,000 for a storage tank and \$85,000 for a Booster Station, or a new water supply well). LWB excludes \$450,000 from BWC's 1998 capital improvement budget. LWB recommends that such large projects or large plant additions should be included in rates only after they are placed in service, so an advice letter authorization should be included in the Commission order authorizing new rates. Therefore, there is no need for 1998 test year.

Since the requested increase is caused by changes in operating expenses and to provide an adequate rate of return, it is applied to both the service charge rates and the quantity rates. The rates for service charge for a 5/8 x 3/4-inch meter would be increased by \$1.78 per meter per month. The rates for all quantities of water delivered to residential and commercial customers would be increased by \$0.1845 per Ccf. (One Ccf is equal to one-hundred cubic feet).

At the LWB's recommended rates shown in Appendix B, the monthly bill for a 5/8 x 3/4-inch metered customer using 10.0 Ccf of water will increase from \$21.14 to \$24.77 or 17.17%. 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.

BWC has residential customers with automatic fire suppression sprinkler systems in their homes. These fire sprinklers require a large flow on a standby basis in the event of fire. The usual size of meter installed at a residence is not adequate to meet the increased demand in the event of a fire. BWC agrees that residential customers should not have to pay the full cost of the large meter when the meter is oversized solely to meet the increased flow requirements of fire sprinklers. The Commission has a policy of allowing the monthly service charge reduced by one meter size, if it has been requested by the customer and verified by the utility that the lower size of meter would be large enough to provide adequate service to the residence. Cal-Am's Monterey Division has provision for residential fire sprinkler rates, therefore, LWB recommends the same provision for residential fire sprinkler rates for BWC.

Service is satisfactory. There are no Commission orders requiring system improvements nor significant service problems requiring corrective action.

NOTICE AND PROTESTS

BWC has mailed a notice of the proposed rate increase to all customers on April 29, 1997. LWB received a letter requesting lower service charge for installing a residential fire sprinkler system to comply with building codes. No letters protesting the increase were received by the LWB.

A public meeting was held in the evening of May 16, 1997 in Monterey to provide customers an opportunity to express their views and ask questions of both the utility and the Commission representative. One of the issues raised by the customers was whether the BWC's system would be incorporated with Cal-Am's water system. Cal-Am does not propose to connect the BWC system with the Cal-Am's Monterey Division water system. A second issue brought up during the meeting was the foul odor of the water upon Cal-Am assuming the operation of the BWC's water system. Cal-Am assured that it is not a system wide problem but an isolated one. Some customers were also concerned about the significance of the increase in its commodity and service charge rates. Cal-Am explained to the customers that the rate change is a multiple step event, the majority of the increase will take place after the completion of the capital improvements via an advice letter.

A few customers expressed concerns that they are required by the local fire agency to install larger meters than they need. BWC agrees that residential customers should not have to pay the full cost of the larger meter when the meter is oversized solely to meet the increased flow requirements of fire sprinklers. Staff notes that the Commission has a policy of allowing the monthly service charge reduced by one meter size, if it has been requested by the customer and verified by the utility that the lower size of meter would be large enough to provide adequate service to the residence. The tariff schedules attached to this resolution incorporate such allowance for fire sprinklers.

FINDINGS AND CONCLUSIONS

1. The LWB's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by LWB (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the LWB's recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

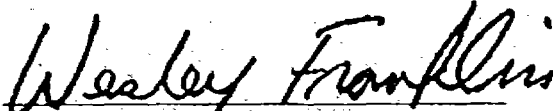
1. Authority is granted under Public Utilities Code Section 454 to Bishop Water Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate schedule No. 1, General Metered Service, and Schedule No. 4, Private 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 its filing.

August 1, 1997

2. Bishop Water Company is authorized, to file an advice letter to recover the cost up to \$450,000 for a storage tank and a booster station or a new water supply well after the completion of the plant additions in 1998.

3. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 1, 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
 BISHOP 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> | | | | | |
| Metered | \$ 95,177 | \$110,188 | \$ 95,177 | \$110,188 | \$110,188 |
| Total Revenue | \$ 95,177 | \$110,188 | \$ 95,177 | \$110,188 | \$110,188 |
| <u>Operating Expenses</u> | | | | | |
| Purchased Water | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Purchased Power | 19,893 | 19,893 | 19,893 | 19,893 | 19,893 |
| Other Volume Related | 0 | 0 | 0 | 0 | 0 |
| Employee Labor | 12,397 | 12,397 | 12,397 | 12,397 | 12,397 |
| Materials | 17,955 | 17,955 | 17,955 | 17,955 | 17,955 |
| Contract Work | 51,644 | 46,665 ^{1/} | 51,644 | 46,665 | 46,665 |
| Water Testing | 0 | 0 | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 0 | 0 |
| Office Salaries | 0 | 0 | 0 | 0 | 0 |
| Management Salaries | 0 | 0 | 0 | 0 | 0 |
| Uncollectibles | 18 | 76 ^{1/} | 18 | 76 | 76 |
| Office Svcs. and Rent | 0 | 0 | 0 | 0 | 0 |
| Office Supplies | 1,283 | 1,283 | 1,283 | 1,283 | 1,283 |
| Professional Services | 4,637 | (2,413) | 4,637 | (2,413) | (2,413) |
| Insurance | 1,509 | 1,509 | 1,509 | 1,509 | 1,509 |
| Regulatory | 0 | 0 | 0 | 0 | 0 |
| General | 582 | 582 | 582 | 582 | 582 |
| Subtotal | \$109,918 | \$ 97,947 | \$109,918 | \$ 97,947 | \$ 97,947 |
| Depreciation | \$ 4,104 | \$ 4,104 | \$ 4,104 | \$ 4,104 | \$ 4,104 |
| Property Taxes | 2,012 | 2,012 | 2,012 | 2,012 | 2,012 |
| Income Taxes | 800 | 1,568 ^{1/} | 800 | 1,568 | 1,568 |
| Total Deductions | \$116,834 | \$105,631 | \$116,834 | \$105,631 | \$105,631 |
| Net Revenue | (\$21,657) | \$ 4,557 | (\$21,657) | \$ 4,557 | \$ 4,557 |
| <u>Rate Base</u> | | | | | |
| Average Plant | \$121,948 | \$121,948 | \$121,948 | \$121,948 | \$121,948 |
| Average Dep. Res. | 64,524 | 64,524 | 64,524 | 64,524 | 64,524 |
| Net Plant | 57,424 | 57,424 | 57,424 | 57,424 | 57,424 |
| Less: Advances | 6,960 | 6,960 | 6,960 | 6,960 | 6,960 |
| Rate Base | \$ 50,464 | \$ 50,464 | \$ 50,464 | \$ 50,464 | \$ 50,464 |
| Rate of Return | -42.92% | 9.03% | -42.92% | 9.03% | 9.03% |

^{1/}The utility later revises the estimates. However, these do not change utility's request for total revenue increase and required rate of return.

APPENDIX B
Page 1

BISHOP WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Laguna Seca Ranch Estates, and vicinity, located approximately six miles east of Monterey, Monterey County.

RATES

| <u>Quantity Rates</u> | <u>Per Meter</u> | |
|--|------------------|-----|
| | <u>Per Month</u> | |
| All water delivered, per 100 cu. ft. | | |
| For residential & commercial customers | \$ 1.35 | (I) |
| For golf course customers | 0.44 | (I) |
| <u>Service Charge</u> | | |
| For 5/8 x 3/4-inch meter..... | \$ 11.22 | (I) |
| For 3/4-inch meter..... | 12.35 | |
| For 1-inch meter..... | 16.82 | |
| For 1-1/2-inch meter..... | 22.43 | |
| For 2-inch meter..... | 30.29 | |
| For 3-inch meter..... | 56.11 | |
| For 4-inch meter..... | 76.31 | |
| For 5-inch meter..... | 126.81 | (I) |

The 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 Rates.

(continued)

APPENDIX B
Page 2

BISHOP WATER COMPANY

Schedule No. 1
(continued)

GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. Any residential customer who has been required to install a Residential Fire Sprinkler System (R.F.S.S.) at their place of residence by local fire ordinances will be allowed to have their monthly service charge reduced by one meter size, provided it has been requested by the customer and verified by the Company that the lower size of meter would be large enough to provide adequate service to the residence. The R.F.S.S. Service is not considered a fire service by the Company, but is considered an oversized general metered service and therefore, only the rules and conditions of service for general metered service apply. (N)
2. A late charge will be imposed per Schedule No. LC. (L)
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. (L)
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)

(continued)

APPENDIX B
Page 3

BISHOP WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The area known as Laguna Seca Ranch Estates, and vicinity, located approximately six miles east of Monterey, Monterey County.

RATES

| | <u>Per Month</u> | |
|--|------------------|-----|
| For each 2-inch service connection | \$ 5.00 | (I) |
| For each 3-inch service connection | 8.76 | |
| For each 4-inch service connection . . . | 12.51 | |
| For each 6-inch service connection . . . | 25.01 | |
| For each 8-inch service connection | 37.52 | (I) |

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. 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 premise 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.

(END OF APPENDIX B)

APPENDIX C
BISHOP WATER COMPANY
COMPARISON OF RATES

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

METERED SERVICE

| | <u>Per Meter Per Month</u> | | <u>Percent Increase</u> |
|------------------------|----------------------------|--------------------------|-------------------------|
| | <u>Present Rates</u> | <u>Recommended Rates</u> | |
| Service Charge: | | | |
| For 5/8x3/4-inch meter | \$ 9.44 | \$ 11.22 | 18.86% |
| For 3/4-inch meter | 10.39 | 12.35 | 18.86% |
| For 1-inch meter | 14.16 | 16.82 | 18.79% |
| For 1-1/2-inch meter | 18.88 | 22.43 | 18.80% |
| For 2-inch meter | 25.49 | 30.29 | 18.83% |
| For 3-inch meter | 47.21 | 56.11 | 18.85% |
| For 4-inch meter | 64.21 | 76.31 | 18.84% |
| For 5-inch meter | 106.70 | 126.81 | 18.85% |

Quantity Rates:

| | | | |
|--------------------------|---------|---------|--------|
| Residential & Commercial | \$ 1.17 | \$ 1.35 | 15.77% |
| Golf Course | 0.38 | 0.44 | 15.76% |

A comparison of monthly customers bills at present and Branch's recommended rates for 1997 test year for a 5/8 x 3/4-inch meter is shown below:

| <u>Consumption (Ccf)</u> | <u>Present Rates</u> | <u>Recommended Rates</u> | <u>Percent Increase</u> |
|--------------------------|----------------------|--------------------------|-------------------------|
| 0.0 | \$ 9.44 | \$11.22 | 18.86% |
| 3.0 | 12.95 | 15.28 | 18.02% |
| 5.0 | 15.29 | 17.99 | 17.67% |
| 10.0 | 21.14 | 14.77 | 17.15% |
| 20.0 | 32.84 | 38.31 | 16.66% |

APPENDIX D
Page 1

BISHOP WATER COMPANY

ADOPTED QUANTITIES
Test Year 1997

Expenses:

1. Purchased Power (Electric)

| Vendor: | Pacific Gas & Electric | |
|-----------------|------------------------|--------------|
| Schedules | <u>A1P</u> | <u>A10</u> |
| Effective Date | Jan. 1, 1996 | Jan. 1, 1996 |
| Total Cost (\$) | \$ 19,893 | |
| kWh Used | 294,626 | |
| Customer Charge | \$ 0.00 | \$ 0.00 |
| Service Charge | \$ 12.00 | 75.00 |
| Energy Charge: | | |
| Summer | \$0.14870 | \$0.08915 |
| Winter | 0.10193 | 0.07279 |
| Demand Charge: | | |
| Summer | | \$ 6.70 |
| Winter | | 1.65 |

2. Purchased Water \$ 0

3. Insurance Expenses \$ 1,509

4. Ad Valorem Taxes \$ 2,012
 Composite Tax Rate 1.029260%
 Assessed Value \$195,480

Service Connections

Metered Rate

| | |
|----------------|----|
| 5/8 x 3/4-inch | 50 |
| 3/4-inch | 0 |
| 1-inch | 69 |
| 1-1/2 inch | 1 |
| 2-inch | 5 |
| 4-inch | 4 |
| 6-inch | 6 |

Total 135

Total Metered Consumption (Ccf) 49,441

(continued)

APPENDIX D
Page 2

BISHOP WATER COMPANY

ADOPTED TAX CALCULATIONS
Test Year 1997

| Line No. | Item | Amounts |
|----------|----------------------------|-----------|
| 1. | Operating Revenues | \$110,188 |
| 2. | O & M Expenses | \$ 97,947 |
| 3. | General Taxes | 2,012 |
| 4. | Depreciation | 4,104 |
| 5. | Interest Expense | 2,276 |
| 6. | Total Deductions | \$106,339 |
| 7. | State Taxable Income | \$ 3,849 |
| 8. | State Income Tax Rate | 8.84% |
| 9. | State Income Tax Expense | \$ 340 |
| 10. | Federal Taxable Income | \$ 3,509 |
| 11. | Federal Income Tax Rate | 35.00% |
| 12. | Federal Income Tax Expense | \$ 1,228 |
| 13. | Total Income Taxes | \$ 1,568 |

(END OF APPENDIX D)