

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Small Water Branch

RESOLUTION NO. W- 4057\*  
August 1, 1997

RESOLUTION

(RES. W-4057), MINERAL CITY WATER SYSTEM (MINERAL).  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$3,323 OR  
9.46% IN 1997 AND A TWENTY-FOUR MONTH RATE SURCHARGE  
TO AMORTIZE THE COST OF UNSUCCESSFUL WELL-DRILLING  
OF \$5.00 PER CUSTOMER PER MONTH PRODUCING AN  
ADDITIONAL ANNUAL INCREASE OF 26.99%.

BY DRAFT ADVICE LETTER FILED ON DECEMBER 16, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$3,323 or 9.46% for test year 1997 and authorizes a rate surcharge to amortize the cost of unsuccessful well drilling. This increase will provide an 11.14% rate of return on rate base in the test year.

BACKGROUND

Mineral 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 \$3,323 or 9.46% in 1997. In addition, Mineral requested a surcharge of \$5.00 per customer per month for two years to amortize the cost of \$20,760 for unsuccessful well-drilling. Mineral's request shows 1997 gross revenues of \$35,125 at present rates would increase to \$38,448 at proposed rates. Mineral presently serves 147 year-round metered customers and 26 seasonal metered customers (May 1 through October 31) in the unincorporated area known as Mineral Camp Site, in the community of Mineral, Tehama County.

The present rates became effective on May 1, 1991, pursuant to Res. W-3558 dated April 24, 1991, which authorized a general rate increase of \$7,486 or 26.39%.

## DISCUSSION

The Small Water Branch (Branch) made an independent analysis of Mineral's operations and issued its report in July, 1997. Appendix A shows Mineral'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 Mineral's and the Branch's estimates in operating expenses.

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

Mineral's draft advice letter requested rates that it estimated would produce a return on rate base of 9.01%. The Summary of Earnings in Appendix A shows a rate of return of 11.14% at Branch's recommended rates. Although the Accounting and Finance Branch of the Commission's Water Division recommends a rate of return in the range of 13.5% and 14.5% for Class D Water Utilities, Branch recommended rates will authorize Mineral the full increase it requested.

Under guidelines established in Decision 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.

The utility currently has two separate rate schedules - Annual General Metered Service and Seasonal Metered Service. Branch reviewed the current rate structure and concurs with Mineral that the two rate schedules be combined into one. Branch found the difference in cost of service to customers billed with the existing two schedules to be insignificant. The Branch also proposes service charges for various meter sizes which are consistent with the Branch's current rate design policy, dated January 18, 1991.

In Res. W-3558, dated April 24, 1991, the Commission recommended that Mineral be authorized to file an advice letter rate increase requesting to offset the costs of drilling a well. Mineral unsuccessfully drilled three wells from 1994 through 1996 at a cost of \$20,760. The Branch believes these costs were prudently incurred and recommends that Mineral be allowed to collect a surcharge of \$5.00 per customer per month for twenty-four months in order to amortize the cost of unsuccessful well-drilling.

Mineral currently collects water from a stream running north of the service territory and a sealed spring above the water tanks. The water is then chlorinated and stored in redwood tanks for distribution. Due to new surface water regulations and periodic positive bacteriological samples, Department of Health Services (DHS) mandated Mineral to modify its water collection and storage system by either treating the surface water or switching to a new, safer source.

In Compliance Order No. 01-02-97(O)52001, dated February 20, 1997, DHS ordered Mineral to:

"By no later than June 30, 1997, the Company shall submit plans and specifications, prepared by a qualified, registered civil engineer, for the construction of the facilities proposed by the Company to reach compliance with this Order. By no later than December 31, 1997, the Company shall have completed and placed in service the new facilities needed to achieve compliance with this Order."

In order to achieve compliance with the above mentioned order, Mineral submitted plans and specifications to DHS for uncovering and developing a water spring. On May 1, 1997, Mineral began construction and started installation of one mile of pipe between the spring and the water tanks. Estimated date to complete construction is September 30, 1997, at an estimated cost of \$70,000. The Branch believes these plant improvements are necessary and recommends that Mineral be allowed to request an offset rate increase after they are completed and placed in service.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a 5/8 x 3/4-inch metered customer using 10 Ccf of water will increase from \$19.00 to \$19.57 or 3.00%. 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 general rate increase was mailed to each customer on February 15, 1997. Two letters protesting the increase were received by the Branch. They both complained of the large rate increase.

On Monday, March 10, 1997, a public meeting was held at the Mineral School located in Mineral City at 7:00 P.M. Thirty customers attended the meeting. The Branch representative explained Commission rate setting procedures and

Mineral's representative, Joanne Perkins, explained the reasons for the proposed increase, including the unsuccessful efforts made to drill a groundwater well. She explained that while costs had increased, the major reason for the increase was a surcharge to amortize those drilling costs.

Customers generally spoke about water quality and about the need for a water treatment facility. Ms. Perkins' engineering consultant, Jack Lacey, explained some of the cost considerations in making a decision to treat the stream water or drill more wells. Richard Hinrichs of the Redding office of the DHS spoke, confirming that a solution was needed before June 30, 1997, or DHS would start to fine Mineral City Water Works for noncompliance. The meeting ended at approximately 8:30.

#### FINDINGS AND CONCLUSIONS

1. The summary of earning (Appendix A) recommended by the Branch 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 utility should be authorized a \$5.00 per customer per month surcharge for twenty-four months in order to amortize the cost of unsuccessful well-drilling.
5. Mineral should be allowed to file an advice letter(s) requesting recovery of costs of plant improvements discussed in this resolution after they are completed and placed in service. Mineral should be allowed to earn a return on this capital investment equal to the midpoint of the rate of return range for Class D Water Utilities recommended by Finance Branch of the Water Division.
6. The rate increase recommended by the Branch is justified and the resulting rates are just and reasonable.
7. Mineral should be ordered to add and/or update the following tariffs rules and forms: Title Page, Preliminary Statement, Schedule UF, Rules 5, 8, 10, 15,

16, 20, and 21; and Forms 2, 4, 10, A through E, and the Connection Fee Data Form.

**IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Mineral City Water System to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate schedules - No. 1A, Annual General Metered Service and No. 1S, Seasonal Metered 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. Mineral City Water System is authorized to file an advice letter(s) requesting recovery of the costs of plant improvements discussed in this resolution after they are completed and placed in service. Mineral City Water System is authorized to earn a return on this capital investment equal to the mid-point of the rate of return range for Class D Water Utilities recommended by the Finance Branch of the Water Division.
3. Within 60 days after the effective date of this resolution, Mineral City Water Company shall file an advice letter adding and/or updating the following tariffs, rules, and forms: Title Page, Preliminary Statement; Schedule UF, Rules 5, 8, 10, 15, 16, 20, and 21; and Forms 2, 4, 10, A through E, and the Connection Fee Data Form.

August 1, 1997

4. 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

MINERAL CITY WATER SYSTEM

SUMMARY OF EARNINGS  
 Test Year 1997

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<b>Operating Revenue</b>					
Metered	\$35,125	\$38,448	\$35,125	\$38,448	\$38,448
<b>Operating Expenses</b>					
Purchased Water	0	0	0	0	0
Purchased Power	1600	1600	1380	1380	1380
Other Volume Related	0	0	250	250	250
Employee Labor	7200	7200	5000	5000	5000
Materials	250	250	0	0	0
Contract Work	750	750	2500	2500	2500
Water Testing	600	600	600	600	600
Transportation	400	400	400	400	400
Management Salaries	7200	7200	7200	7200	7200
Employee Benefits	500	500	0	0	0
Office Services and Rent	200	200	200	200	200
Office Supplies and Expns.	500	500	500	500	500
Professional Services	900	900	900	900	900
Insurance	2230	2230	2079	2079	2079
General Expenses	2000	2000	2000	2000	2000
<b>Total Operating Expense</b>	<b>\$24,330</b>	<b>\$24,330</b>	<b>\$23,009</b>	<b>\$23,009</b>	<b>\$23,009</b>
Depreciation Expense	4358	4358	4358	4358	4358
Property Taxes	654	654	654	654	654
Payroll Taxes	1641	1641	1389	1389	1389
Income Taxes	1301	1800	1537	2036	2036
<b>Total Deductions</b>	<b>\$32,284</b>	<b>\$32,783</b>	<b>\$30,947</b>	<b>\$31,446</b>	<b>\$31,446</b>
<b>Net Revenue</b>	<b>\$2,841</b>	<b>\$5,665</b>	<b>\$4,178</b>	<b>\$7,002</b>	<b>\$7,002</b>
<b>Rate Base</b>					
Average Plant	130725	130725	130725	130725	130725
Average Deprec. Reserve	67845	67845	67845	67845	67845
Net Plant	62880	62880	62880	62880	62880
<b>Rate Base</b>	<b>\$62,880</b>	<b>\$62,880</b>	<b>\$62,880</b>	<b>\$62,880</b>	<b>\$62,880</b>
<b>Rate of Return</b>	<b>4.52%</b>	<b>9.01%</b>	<b>6.64%</b>	<b>11.14%</b>	<b>11.14%</b>