

WATER/FLC:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
WATER ADVISORY BRANCH**

**RESOLUTION NO. W- 4132
FEBRUARY 4, 1999**

RESOLUTION

**(RES. W-4132) MAR VISTA WATER COMPANY, (MVWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$21,989 OR 55.3% ADDITIONAL ANNUAL
REVENUE.**

SUMMARY

By Draft Advice Letter, accepted on May 11, 1998, MVWC seeks revision of tariff Schedules Nos. 1A, Annual Metered Service, and 2AR, Annual Residential Flat Rate Metered Service, to increase its rates to recover increase in operating costs and to provide an adequate rate of return. This resolution grants an increase in gross annual revenues of \$21,989 or a system-wide increase of 55.3% for test year 1998. The increase will provide a 13.31% rate of return on rate base for the test year 1998.

BACKGROUND

MVWC requested 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 to produce additional revenues of \$42,476 or 93% in test year 1998. The purpose of this request is to recover increased operating expenses and to provide an adequate rate of return. MVWC's request shows that in test year 1998, gross revenues of \$40,509 at present rates would increase to approximately \$78,183 at proposed rates. MVWC serves approximately 122 flat rate and 53 metered customers in the Meadow Ranch and Forest Glenn subdivisions, near Aptos, in Santa Cruz County.

The present rates were established on July 8, 1988, pursuant to Res. W-3403, which authorized a general rate increase of \$20,700 or 150%.

DISCUSSION

The Water Advisory Branch (Branch) made an independent analysis of MVWC's summary of earnings and issued its report in October 1998. Appendix A shows MVWC's and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test year 1998. Appendix A also shows differences between MVWC's and the Branch's estimates in revenues, operating expenses, and rate base.

MVWC was informed of the Branch's differing views of revenues, expenses, and rate base and stated that it agreed with the Branch's findings.

MVWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 9.00%. The summary of earnings in Appendix A shows a rate of return of 13.31% at the Branch's recommended rates. This rate of return is near the midpoint of the 12.75% to 13.75% rate of return range recommended by the Commission's Audit and Enforcement Branch for Class D, 100% equity financed utilities.

MVWC's filed tariffs currently contain two schedules: 1A, Annual Metered Service, and 2AR, Annual Residential Flat Rate Service. MVWC has requested that meter sizes smaller than one-inch be eliminated from its metered schedule since it does not serve any connections smaller than one-inch. Branch agrees with MVWC's request. MVWC also serves one customer through a one and a half inch connection and another through a two-inch connection although these size meters are not included in the metered schedule. Service charges for these size meters have been included in the tariff schedules included in Appendix B. Metered rates have been increased with consideration given to the current service charge allocation by meter size. Flat rates have been increased by the overall system-wide increase.

MVWC has also been charging the larger metered customers the same rate for the Safe Drinking Water Bond Act Loan surcharge apparently since these customers were not in the system at the time the surcharge was implemented. The Branch recommends that these surcharges be revised at the conclusion of the financial audit now being performed.

Branch has reviewed MVWC's tariff schedules and found that the following rule and form need to be updated: Rule 10, Disputed Bills, and Form 2, form for Customer Deposit Receipt.

At the Branch's recommended rates shown in Appendix B, the monthly bill for the average residential metered customer with a 1-inch meter using 20 Ccf of water will increase from \$18.05 to \$27.32. The annual bill for a flat rate customer will increase from \$231.84 to \$360. 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 June 12, 1998. The Branch received 12 letters protesting the rate increase. The Branch has responded to each letter.

On June 30, 1998, the Branch held an informal public meeting in MVWC's service area. The Branch's representative explained the Commission rate-setting procedures and the utility's representative explained the need for the rate increase. About 22 customers attended; most were concerned with the quality of the water and service that they receive from the company, and the size of the increase.

The water is high in manganese. Manganese is classified as a secondary drinking water contaminant and does not constitute a risk to health. The Santa Cruz County Environmental Health Services has initiated procedures to receive public comment on the need to remove manganese from MVWC's water. Low pressure is also a problem. Unfortunately, the size of the system prohibits the expenditure of funds to solve this problem.

Cherokee Lane is a dead end road approximately 1000 feet long which provides access to five residential customers. The original home was served through a two-inch pipe that crossed a twenty feet deep by forty feet wide gulch. Subsequent homebuilders connected to that service line rather than to the main across the gulch. According to the residents, the original service line was destroyed about 14 years ago in a storm. MVWC did not repair the line, so the residents installed a temporary above-ground plastic line which breaks often and is probably providing low pressure. MVWC claims that it is not responsible for repairing this line since it is a service line and should be the responsibility of the residents. However, when MVWC allowed additional customers to take water from the original two-inch line, that line took on the characteristics of a main which must be maintained by

the utility. The Branch recommends that MVWC be ordered to install a new main on Cherokee Lane and be authorized to file an advice letter to recover the costs.

MVWC's records and documentation of major expenses, payroll, and customer billing are incomplete. Without documentation, the Branch was left in the position of evaluating expense and plant addition amounts for which the utility provided little support. MVWC should be put on notice that its books of records must be maintained in the manner as mandated by the Uniform System of Accounts for Class D Water Utilities.

MVWC has requested money for meter installations in 1997 and 1998. Branch review revealed no documentation supporting the installations. The Branch is in favor of metering all customers as MVWC has indicated it intends to do; therefore, it is recommending that MVWC establish a schedule of installing 40 meters per year. MVWC should be authorized to file an advice letter in January 2000, to request recovery of expenses associated with these meter installations cost for the previous year. MVWC should include meters in its next general rate case filing which should occur in three years.

MVWC has not complied with a 1988 Commission order to install a meter at each water source. MVWC is also in violation of Section I.8 of the Commission's G. O. 103, which requires that a complaint log and/or a three-year summary of such complaints be kept. MVWC has been filing annual reports as required.

FINDINGS AND CONCLUSIONS

- a) The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b) The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c) The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- d) The rate increase proposed by the Branch is justified, the resulting rates are just and reasonable.
- e) MVWC should be ordered to update Tariff Rule No. 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.
- f) MVWC should be ordered to install a new main on Cherokee Lane and be authorized to file an advice letter to recover the costs once installation is complete and new main is in service.

- g) MVWC should be ordered to maintain its books of account in accordance with the Uniform System of Accounts for Class D Water Utilities.
- h) MVWC should be ordered once again to install a suitable measuring device or otherwise provide a means of determining water production at each water source.
- i) MVWC should be ordered to establish a meter installation program to replace all flat rate service with metered service and be authorized to file an advice letter to recover its costs.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Mar Vista Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedules Nos. 1A , Annual Metered Service, and 2AR, Annual Residential Flat Rate Service. Its filing shall comply with General Order 96-A. The effective date of the new schedule shall be five days after the date of filing.
2. Within 60 days after the effective date of this resolution, Mar Vista Water Company shall file an advice letter updating its Tariff Rule No. 10 and Form No. 2.
3. Mar Vista Water Company shall install a new main on Cherokee Lane and is authorized to file an advice letter requesting recovery of its costs once installation is complete and new main is in service.
4. Mar Vista Water Company shall establish and maintain its books of records in accordance with the Uniform System of Accounts for Class D Water Utilities.
5. Within 90 days after the effective date of this resolution, Mar Vista Water Company shall install a suitable measuring device to determine water production at each of its water sources and file an advice letter requesting recovery of its costs. Failure to do so will subject the utility to sanctions to be determined by this Commission.
6. Mar Vista Water Company shall establish a meter installation program to replace all flat rate service with metered service and file an advice letter in January of each of the following two years to request recovery of their costs.

7. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 4, 1999. The following Commissioners approved it:



Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

Summary of Earnings
Test Year 1998

Item	<u>Utility Estimates</u>		<u>Staff Estimates</u>		Staff Recommendation
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues</u>					
Metered Water Revenue	\$16,302	\$31,463	\$11,479	\$22,154	\$17,826
<u>Flat Rate Revenue</u>	<u>\$24,207</u>	<u>\$46,720</u>	<u>\$28,284</u>	<u>\$54,588</u>	<u>\$43,926</u>
Total Revenue	\$40,509	\$78,183	\$39,763	\$76,742	\$61,752
<u>Operating Expenses</u>					
O&M					
Purchased Water	\$0	\$0	\$0	\$0	\$0
Power	\$9,716	\$9,716	\$9,716	\$9,716	\$9,716
Employee Labor	\$12,413	\$12,413	\$9,339	\$9,339	\$9,339
Materials	\$3,265	\$3,265	\$3,265	\$3,265	\$3,265
Contract Work	\$1,308	\$1,308	\$1,308	\$1,308	\$1,308
Transportation	\$4,954	\$4,954	\$2,642	\$2,642	\$2,642
<u>Other Plant Maintenance Expense</u>	<u>\$106</u>	<u>\$106</u>	<u>\$106</u>	<u>\$106</u>	<u>\$106</u>
Total O&M	\$31,762	\$31,762	\$26,376	\$26,376	\$26,376
A&G					
Office Salaries	\$6,427	\$6,427	\$4,340	\$4,340	\$4,340
Management Salaries	\$10,712	\$10,712	\$7,127	\$7,127	\$7,127
Employee Pension and Benefits	\$0	\$0	\$0	\$0	\$0
Uncollectible Accounts	\$325	\$325	\$325	\$325	\$325
Office Services and Rentals	\$3,692	\$3,692	\$3,645	\$3,645	\$3,645
Office Supplies and Expenses	\$3,000	\$3,000	\$1,412	\$1,412	\$1,412
Professional Services	\$1,490	\$1,490	\$1,490	\$1,490	\$1,490
Insurance Expense	\$5,186	\$5,186	\$2,756	\$2,756	\$2,756
Regulatory Commission Expense	\$1,167	\$1,167	\$1,167	\$1,167	\$1,167
<u>General Expenses</u>	<u>\$1,434</u>	<u>\$1,434</u>	<u>\$1,434</u>	<u>\$1,434</u>	<u>\$1,434</u>
Total A&G	\$33,433	\$33,433	\$23,696	\$23,696	\$23,696
Total Operating Expenses	\$65,195	\$65,195	\$50,072	\$50,072	\$50,072
<u>Other Expenses</u>					
Depreciation Expenses	\$2,918	\$2,918	\$1,463	\$1,463	\$1,463
Taxes Other than Income Taxes	\$3,415	\$3,415	\$2,605	\$2,605	\$2,605
State Income Taxes	\$800	\$800	\$800	\$800	\$800
<u>Federal Income Taxes</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,270</u>	<u>\$1,022</u>
Total Deductions	\$7,133	\$7,133	\$4,868	\$8,138	\$5,890
Net Revenue	-\$31,819	\$5,855	-\$15,177	\$18,532	\$5,790
Plant in Service	\$105,004	\$105,004	\$73,132	\$73,132	\$73,132
Depreciation Reserve	\$44,478	\$44,478	\$40,441	\$40,441	\$40,441
Net Plant	\$60,526	\$60,526	\$32,691	\$32,691	\$32,691
Working Cash	\$10,805	\$10,805	\$10,805	\$10,805	\$10,805
Average Ratebase	\$65,390	\$65,390	\$43,496	\$43,496	\$43,496
Rate of Return	-49%	9%	-35%	43%	13.31%

APPENDIX B

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

Quantity Rate:

All water, per 100 cu. ft.\$0.73 (I)

Service Charge:

		<u>Per Service Connection</u>		
		Bimonthly :	Bimonthly	(C)
		<u>Charge</u> :	<u>Surcharge</u>	(C)

For 1-inch meter	\$24.20	(I)	\$25.00	(I)
For 1 1/2-inch meter	\$48.30		\$25.00	
For 2-inch meter	\$77.30	(I)	\$25.00	(I)

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

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Water Bond Act loan authorized by Decision No. 91921.

(continued)

APPENDIX B-1

Schedule No. 2AR

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Forest Glen Subdivision and vicinity, located one mile east of the community of Aptos, Santa Cruz County.

RATES

	<u>Per Service Connection</u>		
	<u>Bimonthly</u> :	<u>Bimonthly</u>	
	<u>Charge</u>	: <u>Surcharge</u>	
For a single-family residential unit including premises	\$60.00	\$18.30	(I)

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge of \$360.00 (I) per one inch or less service connection, per year. The total surcharge is specifically for the payment of the California Safe Drinking Water Bond Act loan as authorized by Decision No. 91921.

(continued)

APPENDIX C
MAR VISTA WATER COMPANY
Comparison of Rates
Test Year 1998

METERED SERVICE

		Per Service		
		<u>Connection Per Month</u>		
Service Charge:		Present	Proposed	Change
		<u>Rates</u>	<u>Rates</u>	<u>(%)</u>
For	5/8 x 3/4 - inch meter	\$5.50	NA	
For	3/4 - inch meter	\$6.00	NA	
For	1 - inch meter	\$8.25	\$12.10	46.67%
For	1 1/2 - inch meter	\$8.25	\$24.15	192.73%
For	2 - inch meter	\$8.25	\$38.65	368.48%
Quantity Rate:		\$0.47	\$0.73	55.32%
<u>RESIDENTIAL FLAT RATE SERVICE</u>		\$19.32	\$30.00	55.28%

APPENDIX D-1
MAR VISTA WATER COMPANY
Adopted Tax Calculations
Test Year 1998

1. Operating Revenues	\$61,752
2. Expenses	\$50,068
3. Depreciation	\$1,463
4. Taxes Other than Income	\$2,605
5. Interest Expense	\$0
6. Taxable Income for State Tax	\$11,340
7. State Tax (Minimum)	\$800
8. Taxable Income for FIT	\$6,816

