

WATER/ABJ/HJL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Advisory Branch

RESOLUTION NO. W-4136
February 18, 1999

RESOLUTION

**(RES. W-4136), MINERAL CITY WATER COMPANY
(MCWC). ORDER AUTHORIZING AN OFFSET RATE
INCREASE PRODUCING AN ADDITIONAL ANNUAL
REVENUE OF \$13,625 OR 23.85%.**

SUMMARY

By Draft Advice Letter accepted on November 6, 1998, MCWC is requesting to increase rates by \$13,625 or 23.85% to recover costs in capital investment in water utility plant. This increase will result in a rate of return of 13.20% which is higher than the rate of return of 12.78% last authorized in Res. W-4087, dated January 7, 1998. This is due to MCWC being authorized in its last general rate case (Res. W-4057, dated August 1, 1997) to earn a return of 14.00% on the capital investment in this resolution. The 14.00% is the midpoint of the rate of return range for Class D Water Utilities currently recommended by the Water Division's Audit and Enforcement Branch.

BACKGROUND

MCWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates in order to offset \$62,538 for capital improvements associated with well development. MCWC presently serves approximately 173 metered customers in Mineral City and vicinity, Tehama County.

The present rates became effective January 18, 1998, pursuant to Res. W-4087, which authorized an offset rate increase of \$18,682 or 48.59%.

DISCUSSION

The rate increase is requested in order for MCWW to recover costs associated with improvements required by Department of Health Services Compliance Order No. 01-02-98(c) 52005, dated September 2, 1998.

MCWC requests permission to increase rates by \$13,625 or 23.85%.

At one time, MCWC's primary source of water was a stream, with a spring as a secondary source. Due to new surface water regulations, the Department of Health Services Office of Drinking Water (DHS) mandated MCWC to modify its water collection and storage system by either treating the surface water or switching to a new, safer source. Due to the high expense of treating surface water, MCWC opted to drill a well as a new water source. Unfortunately, MCWC drilled three wells unsuccessfully. The first well, although adequate in flow, was extremely high in iron and manganese and not acceptable to DHS. The second and third wells were dry. The Commission found the cost of drilling the unsuccessful wells to be prudently incurred and in August, 1997 authorized MCWC to collect a surcharge of \$5.00 per customer per month for twenty-four months to recover the costs of drilling the wells (Res. W-4057).

MCWC then attempted to comply with DHS's mandate by uncovering and developing a spring located approximately one mile from the utility storage tanks. DHS approved the project, and it was completed in November, 1997. In January, 1998, the Commission authorized MCWC a rate base offset to recover costs associated with uncovering and developing the spring (Res. W-4087).

The spring, however, has not produced the amount of water originally predicted so that during periods of heavy water use (summer) the utility does not have enough water supply from its two springs. In order to provide enough water during the heavy use periods, MCWC has equipped and placed into service the first of the three unsuccessful wells drilled in 1997 which was high in iron and manganese. Because the well will not be used all year-round and when it is used it will be pumped to the storage tanks and blended with the spring water, DHS has authorized its use. DHS will be monitoring the iron and manganese concentrations of the well to determine if any treatment will eventually be necessary.

DHS has worked closely with MCWC as the utility has undertaken the projects discussed above to comply with the new surface water treatment regulations and believes that the utility has acted prudently and in good faith and in the best interest of the ratepayer. The Branch concurs.

In this advice letter, MCWC requests to raise its rates to recover the costs associated with equipping and placing a well into service.

The Water Advisory Branch (Branch) has inspected and verified the installation of the facilities (well development). It has also reviewed MCWC's records and finds the cost of \$62,538 associated with the well development to be reasonable. In view of this, the Branch recommends that MCWC be authorized to increase its rates by \$13,625 or 23.85% to recover the costs associated with well development as described above. The annual bill for a 5/8 x 3/4-inch metered customer using 10 Ccf of water per month will increase from \$436.56 to \$530.78 or 23.87%.

Service is satisfactory. There are no Commission orders requiring system improvement, nor are there service problems requiring corrective action.

NOTICE AND PROTESTS

MCWC published a notice of this proposed increase in a local newspaper on December 15, 1998. There were five protest letters, to which the Branch has responded.

FINDINGS

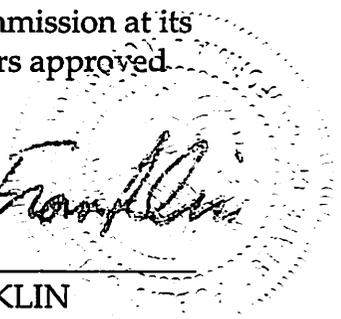
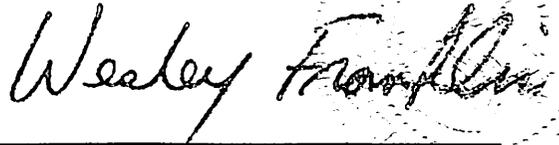
THE COMMISSION finds, after investigation by the Branch, that the rate increase proposed by MCWC is just and reasonable to recover the costs associated with well development plant improvement.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Mineral City Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to Appendices A and B, respectively, and to concurrently cancel its presently effective rate Schedule 1A, Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be five days after the date of filing.

2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 18, 1999. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

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

APPENDIX A
MINERAL CITY WATER SYSTEM

SUMMARY OF EARNINGS

Item	Adopted W-4087	Offset Increase	Adopted Rates
<u>Operating Revenue</u>			
Metered	\$57,130	\$13,625	\$70,755
<u>Operating Expenses</u>			
O&M/A&G Expenses	23009		23009
Depreciation Expense	7201	1885	9086
Property Taxes	1081	283	1364
Payroll Taxes	1389		1389
Income Taxes	5505	2579	8084
Total Deductions	\$38,185	\$4,747	\$42,932
<u>Net Revenue</u>	\$18,945		\$27,823
<u>Rate Base</u>			
Net Plant	148188	62538	210726
<u>Rate of Return</u>	12.78%		13.20%
Depreciation Increase:		Property taxes Increase:	
Plant Additions = \$56,594		Plant Additions = \$56,594	
Depr. Rate = 3.33%		Prop. Tax Rate = 0.05%	
Depr. Increase = \$1,885		Prop. Tax Incr. = \$283	
Income Tax Calculation at Proposed Rates:			
Revenue	\$70,755		
O&M/A&G Expenses	23009		
Depreciation Expense	9086		
Property Taxes	1364		
Payroll Taxes	1389		
State Income Taxes	\$ 3,174		
Federal Income Taxes	\$ 4,910		
Total Income Tax	\$ 8,084		

APPENDIX B
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MINERAL CITY WATER COMPANY

Schedule No.1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Mineral and vicinity, Tehama County.

RATES

		<u>Per Meter</u>	
		<u>Per Month</u>	
Quantity Rate:			
	Over 500 cu.ft., per 100 cu.ft.....	\$1.71	(1)
Annual Service Charge:			
For	5/8 x 3/4-inch meter	\$335.58	(1)
For	3/4-inch meter	\$503.38	
For	1-inch meter	\$838.66	
For	1-1/2 inch meter	\$1,238.45	
For	2-inch meter	\$2,105.50	(1)

The Annual Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills for metered service are subject to a \$5.00 twenty-four month surcharge. This charge offsets the amortized costs of unsuccessful well-drilling from 1994 through 1996. This surcharge is in addition to the water bills and other surcharges and shall be in effect for 24 months , ending August 26, 1999. (C)

(continued)

APPENDIX B
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MINERAL CITY WATER COMPANY

Schedule No.1A

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS

2. The annual minimum charge applies to service during the 12-month period commencing May 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the resident may elect, at the beginning of the billing year, to pay prorated minimum charges in advance at intervals of less than one year in accordance with the utility's established billing periods for water used.
3. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any billing year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one-three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of the initial service, no refund of the initial annual charges shall be due the customers.
4. The established billing cycle is monthly during the period May 1 through October 31.
5. The Quantity Rate schedule is applicable for the period May 1 through October 31. The charge for water used in excess of the quantity allowed each month under the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility. If meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis. Quantity rates are not in effect November 1 through April 30.
6. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
7. All bills are subject to the reimbursement fee set forth in Schedule No. UF.