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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
WATER ADVISORY BRANCH**

**RESOLUTION NO. W-4159
JULY 8, 1999**

RESOLUTION

**(RES. W-4159) EPTCO WATER SYSTEM (EPTCO). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$8,744 OR 18.2% ADDITIONAL ANNUAL REVENUE.**

SUMMARY

By Draft Advice Letter, accepted on March 26, 1999, EPTCO seeks revision of tariff Schedule Nos. 1, General Metered Service, 2, General Flat Rate Service and 4, Private Fire Protection Service to increase its rates to recover an increase in operating costs and to provide an adequate rate of return. This resolution grants an increase in gross annual revenues of \$8,744 or a system wide increase of 18.2% for test year 1999. The increase will provide a 20% return on margin for the test year 1999.

BACKGROUND

EPTCO 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 \$12,932 or 30% in 1999. The purpose of this request is to recover increased operating expenses and to provide an adequate rate of return. EPTCO's request shows that in test year 1999, gross revenues of \$42,931 at present rates would increase to approximately \$55,863 at proposed rates. EPTCO serves 226 flat rate and 3 metered customers in its service area approximately one mile west of the city of Visalia, in Tulare County.

The present rates were established on October 7, 1998 pursuant to an offset rate increase to recover Department of Health Services' fees and an increase in the Consumer Price Index. The last general rate increase was established on February 23, 1996, pursuant to Res. W-3971 which authorized a general rate increase of \$7,285 or 16.84% in 1996.

DISCUSSION

The Water Advisory Branch (Branch) made an independent analysis of EPTCO's summary of earnings. Appendix A shows EPTCO's and the Branch's estimates of the summaries of earnings at present, requested and adopted rates for test year 1999. Appendix A also shows differences between EPTCO's and the Branch's estimates in operating revenues, expenses

and rate base. Due to an error in EPTCO's revenue calculations, its requested revenues are less than they should be. This was not discovered until after the notice and public meeting were completed. The error results in EPTCO receiving about \$800 more than it requested; however the Branch considers this amount insignificant (1.4% of revenue) and recommends the amount included in the summary of earnings in Appendix A be approved. .

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

EPTCO is owned and operated by the Ralstons, who also own and operate Buhl Water System, Nish Water Company, and Tulco Water Company, all located in and around Visalia. Some of their expenses are common to all four of the utilities and others could be commingled. It's possible that invoices could be mismarked and filed under different utilities. This makes it difficult for the Branch analyst to sort and ensure that all expenses are accounted for in the correct accounts and the correct companies. This difficulty is exacerbated when not all utilities have filed for a general rate increase at the same time. Filing for all four utilities will ensure that the common expenses are allocated in their correct proportions and in the proper utilities. For these reasons, the Branch recommends that, at the time of the next filing for general rate increases for these four utilities, all four filings be done at the same time. This will produce a combined customer count of approximately 1,100, which will result in the utilities being classified as a Class C water utility and earning a Class C rate of return. The Operating Ratio method of determining net revenue applies for Class C water utilities as well as for Class D.

EPTCO's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 15.12%. The summary of earnings in Appendix A shows an operating ratio of 20% at the Branch's recommended rates. Under guidelines established by D.92-030-093, the Commission staff must calculate net revenues by both the return on rate base and the operating ratio methods and select the method that produces the most revenue. Branch evaluated the net revenues using both methods and determined that the operating ratio method provides the most revenue.

EPTCO's filed tariffs currently contain three schedules: No. 1, General Metered Service, No. 2, General Flat Rate Service, and No. 4, Private Fire Protection Service. Branch reviewed EPTCO's tariff schedules and found that the following need to be updated: Schedule LC, Form 2, and Rule Nos. 9 and 11.

At the Branch's recommended rates shown in Appendix B, the annual bill for a typical flat rate customer will increase from \$169.44 to \$201.00 or 18.6%. 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 sent to each customer on April 9, 1999. The Branch received two letters protesting the request. On April 27, 1999, the Branch held an informal public meeting in Visalia. The Branch's representative explained the Commission

rate-setting procedures and the utility's representative explained the need for the rate increase.

Only two people attended, one of which was one of the letter writers noted above. Both stated that their pressure was too low. In response to their comments, Mr. Ralston installed a pressure recorder on one of the services and left it for five days. The graph recorded pressure at between 40 and 60 pounds per square inch, at the lower limit of the acceptable pressure range allowed by General Order 103. Since it was within the acceptable range and because EPTCO is a small utility with little economies of scale, there was nothing else that could be done.

There are no outstanding Commission orders requiring system improvements. EPTCO has been filing annual reports as required.

FINDINGS AND CONCLUSIONS

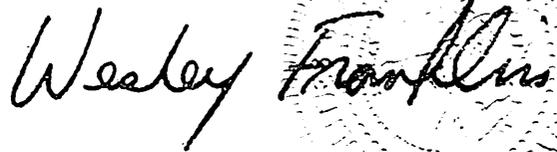
- a) The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b) The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c) The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- d) The rate increase proposed by the Branch is justified; the resulting rates are just and reasonable.
- e) At the time of the next general rate case filing, Buhl, EPTCO, Nish, and Tulco water utilities should all be filed at the same time.
- f) EPTCO should be ordered to update its Schedule LC, Form 2, and Rules 9 and 11.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for EPTCO Water System to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedules Nos. 1, 2, and 4. 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. Buhl Water System, EPTCO Water System, Nish Water Company and Tulco Water Company shall make their next general rate case filings at the same time.
3. Within 60 days after the effective date of this resolution, EPTCO Water System shall file an advice letter updating its Schedule LC, Form 2, and Rule Nos. 9 and 11.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on July 8, 1999. The following Commissioners approved it:



A handwritten signature in cursive script that reads "Wesley Franklin". The signature is written over a faint, circular embossed seal or stamp.

WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS

President

HENRY M. DUQUE

JOSIAH L. NEEPER

JOEL Z. HYATT

CARL W. WOOD

Commissioners

APPENDIX A

EPTCO Water System

SUMMARY OF EARNINGS

Test Year 1999

	Utility Estimated		Branch Estimated		Test Year 1999 Recommended
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenues					
Unmetered	\$41,471	\$53,965	\$46,252	\$60,155	\$54,680
Fire Protection Revenue	171	222	171	223	200
Metered Water Revenue	<u>1,289</u>	<u>1,676</u>	<u>1,563</u>	<u>2,032</u>	<u>1,850</u>
Total	42,931	55,863	47,986	62,410	56,730
Operating Expenses:					
Purchased Power	9,641	9,641	9,910	9,910	9,910
Materials	230	230	160	160	160
Contract Work	2,187	2,187	3,260	3,260	3,260
Transportation	950	950	950	950	950
Other Plant Maintenance	1,150	1,150	800	800	800
Office Salaries	2,650	2,650	2,570	2,570	2,570
Management Salaries	11,523	11,523	11,530	11,530	11,530
Employee Benefits	3,260	3,260	2,570	2,570	2,570
Office Services and Rent	2,519	2,519	2,770	2,770	2,770
Office Supplies	3,026	3,026	2,870	2,870	2,870
Professional Services	1,900	1,900	1,580	1,580	1,580
Insurance	795	795	800	800	800
General Expenses	608	608	200	200	200
Uncollectibles	557	557	250	250	250
Regulatory	790	790	790	790	790
Subtotal	41,784	41,784	41,010	41,010	41,010
Depreciation Expense	2,573	2,573	3,650	3,650	3,650
Non-Income Tax	542	542	540	540	540
Income Taxes	<u>0</u>	<u>2,635</u>	<u>1,098</u>	<u>3,874</u>	<u>2,600</u>
Total Deductions	44,899	47,534	46,298	49,074	47,800
Net Revenues	1,968	8,329	1,688	13,336	8,930
End-of-Year Plant	128,654	128,654	127,930	127,930	127,930
End-of-Year Deprec. Reserve	74,153	74,153	77,920	77,920	77,920
Net Plant	54,501	54,501	50,010	50,010	50,010
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	0	0	0	0	0
Mat'l & Suppl	600	600	600	600	600
Rate Base	55,101	55,101	50,610	50,610	50,610
Rate of Return	3.57%	15.12%	3.34%	26.35%	-
Operating Ratio	-	-	-	-	20%

APPENDIX B
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EPTCO Water System

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Tract No. 179 and vicinity, approximately 1 mile west of the City of Visalia, Tulare County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. <u>Residential Service</u>		
For each single-family residential unit Including premises not exceeding 10,000 sq.ft. in area.....	\$16.75	(I)
a. For each additional 100 sq.ft. of Premises in excess of 10,000 sq. ft.....	0.102	(I)
b. For each additional single-family residential unit on the same premises and served from the same service connection.....	7.80	(I)
2. For each grocery store.....	38.01	(I)
3. For each laundromat.....	47.97	(I)
4. For each business office.....	16.72	(I)

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EPTCO Water System

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Tract No. 179 and vicinity, approximately 1 mile west of the City of Visalia, Tulare County.

RATES

	<u>Per Month</u>	
For each inch of diameter of service connection	\$4.22	(I)

SPECIAL CONDITIONS

1. The fire protection service shall be installed by the utility or under the utility's direction. The cost for the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter, and backflow device) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right of ingress to, and egress from, the premises for all purposes in relation to said facilities.
4. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall not be more than the diameter of the main to which the service is connected.
5. 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 premises to be served, then a main extension from the nearest existing main of adequate capacity shall be required by the utility.

(continued)

APPENDIX C

EPTCO Water System

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>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 9.15	\$10.82	18.25%
For 3/4-inch meter	13.73	16.23	18.21%
For 1-inch meter	22.88	27.05	18.23%
For 1 1/2-inch meter	45.77	54.11	18.22%
For 2-inch meter	73.22	86.56	18.22%
Quantity Rate:			
All water, per 100 cu. ft.	\$0.142	\$ 0.168	18.31%

Usage for a hypothetical residential customer on a 1-inch service connection using 300 Ccf per year:

<u>Usage</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
100 Cu. Ft				
300	\$317.16	\$375.00	\$57.84	18.24%

GENERAL FLAT RATE SERVICE

	<u>Per Connection Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Single-family residential unit			
Not exceeding 10,000 sq. ft. of premises	\$14.12	\$16.69	18.20%
Additional 100 sq. ft. of premises	0.086	0.102	18.61%
Additional unit on same premises	6.60	7.80	18.18%
Grocery Store	32.15	38.01	18.23%
Laundromat	40.58	47.97	18.21%
Business Office	14.14	16.72	18.25%

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EPTCO Water System

ADOPTED QUANTITIES
Test Year 1999

Expenses:

1.	<u>Purchased Power</u>	
	Vendor	Southern California Edison
	Schedule	GS-1
	Effective Date	January 1, 1998
	Customer Charge	\$0.48000 per day
	Three-Phase Charge	\$0.079 per day
	Energy Charge, per kWh	\$0.11760
	Energy Tax, per kWh	\$0.0002
	Consumption, kWh	8,410
	Wells No. 2 and 3	
	Schedule	PA-1
	Effective Date	January 1, 1998
	Customer Charge	\$17.65 per month per well
	Horsepower Charge	\$2.05 per HP per month (30 HP total load)
	Energy Charge, per kWh	\$0.09172
	Energy Tax, per kWh	\$0.0002
	Consumption, kWh	78,174
	Electric Power Cost	\$9,540
	Backup generator Standby charge	\$370
	Total Power Cost	\$9,910
2.	<u>Insurance Expense</u>	
	General Liability Insurance	\$639.00
	Automobile Insurance	161.00
	Total Cost	\$ 80.00
3.	<u>Ad Valorem Taxes</u>	\$ 540
	Composite Tax Rate	1.0008%
	Assessed Value	\$54,180
4.	<u>Payroll Taxes</u>	none
5.	<u>Water Testing Expenses (In contract work)</u>	\$1,060

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EPTCO Water System

ADOPTED QUANTITIES

Test Year 1999

Service Connections

Metered

5/8 x 3/4-inch	0
3/4-inch	0
1-inch	2
1 1/2-inch	0
2-inch	1

Total Metered Customers 3

Metered water sales used to design rates 949 Ccf

Flat Rate units 226

Excess square footage charged 6,702

Total Customers 229

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EPTCO Water System

ADOPTED TAX CALCULATIONS

Test Year 1999

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$ 56,730	\$50,540
2.	O&M Expenses	41,010	36,600
3.	Taxes Other Than Income	540	515
4.	Depreciation	3,650	3,118
5.	Interest	0	0
6.	Taxable Income for State Tax	11,530	
7.	State Tax	1,020	1,020
8.	Taxable Income for Federal Tax		10,510
9.	Federal Income Tax		1,580
10.	Total Income Tax	\$ 2,600	
	California Corporate Franchise Rate	8.84%	
	Federal Income Tax Rates		
	On first \$50,000 taxable income	15%	