

WATER/SNR/TAC/LTR:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-4355

October 24, 2002

R E S O L U T I O N

**(RES. W-4355), WATERTEK, INC., GRANDVIEW GARDENS DISTRICT (GV). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$31,230 OR 128.1% IN 2002.**

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**SUMMARY**

This resolution grants a general rate increase in gross annual revenues of \$31,230 or 128.1% for Test Year 2002. This increase will provide a 20% margin over expenses in the test year.

**BACKGROUND**

GV requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$19,082 or 71.17% in 2001. GV's request shows 2002 gross revenue of \$26,813 at present rates increasing to \$46,629 at proposed rates to yield a 20% rate of margin.

GV currently serves 99 flat-rate water customers located immediately north of Porterville in Tulare County. The current rates were established on November 19, 2001, pursuant to Resolution W-4297, which authorized an interim rate increase.

Prior to Watertek's purchase, GV was a CPUC-regulated water utility known as Grand View Gardens Water Company, Inc. (Grand View). Grand View was owned and operated by Ms. Theta McComb and was incorporated under California law in 1987. Prior to the acquisition by Watertek, Grand View was considered a Class D water utility. Ownership of GV was transferred to Watertek by Decision (D.) 01-08-004 (effective 08/02/01), which established the

rate base of \$1.00, which was the purchase price. While ownership of Grand View by Watertek was approved by the CPUC in August 2001, Mr. Smith had been operating the system pursuant to a June 2000 agreement with Ms. McComb.

## **DISCUSSION**

Watertek was founded in 1969 and is currently classified as a sewer utility regulated by the CPUC. Watertek has been owned and operated since 1986 (authorized by Decision 86-12-051) by Raymond L. Smith (CEO) and Esther F. Smith (CFO). Watertek's principal place of business is in Salinas, Monterey County. Mr. Smith is a State certified Grade III Wastewater Operator, Grade II Water Operator, Grade II Distribution Operator, and a general contractor.

Watertek provides water and sewer services to six CPUC-regulated entities (districts) and contracts for services to one additional water and sewer entity. The six CPUC-regulated districts are: East Plano (Porterville area water system), Grandview Gardens (Porterville area water system), Indian Springs (Salinas area sewer system), Metropolitan (Fresno area water system), Oak Hills (Salinas area sewer system), and Spreckles (Salinas area sewer system). The non-regulated sewer entity is San Lucas (Salinas area water and sewer system).

The six CPUC-regulated entities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). This allows the customers of each company to pay a smaller percentage of some of the expenses than had each one of the companies been separate. Shared expenses are allocated to each district based upon the number of customers. This resolution deals specifically with GV's rate increase request. Indian Springs' and Oak Hills' requests are dealt with in separate resolution.

On June 27, 2001 Watertek, Inc. (Watertek) filed a general rate increase request for its GV District. The staff (Staff) of the Water Branch (Branch) reviewed and accepted the filing in late July. The Branch made an independent analysis of GV's summary of earnings and issued its report on August 5, 2002. Appendix A shows GV's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between GV's and the Branch's estimates in operating revenues, expenses and rate base.

The GV filing erroneously estimated many of the expense categories, basing expenses on actual year 2000 instead of the more current 2001 expenses. This

resulted in many of the differences between GV's and Branch's estimates. For example, GV based its power cost estimate for 2002 on its year 2000 power expense. Staff based its estimate on actual energy usage for a 12-month period (2001 calendar year) and Southern California Edison Company's (SCE's) current tariff surcharges.

The other large differences are in labor, materials, contract work, transportation, other plant maintenance, office services and rentals and general expenses. Staff studied Watertek's operation to determine reasonable and necessary amounts of employee labor, office salaries and management salaries in order to efficiently and safely run the company. Staff reduced the amount of transportation expense because of reduced travel need due to the hiring of a plant operator in the Porterville/Fresno Area. Staff also found that Watertek does not maintain a vehicle log that clearly identifies charges relating to each of its districts.

While GV has had expenses classified as "general expenses" in the past, GV has not requested recovery of general expenses in the rate case. Staff has included the warehouse rent which the company included in Office Services and Rentals as well as the yearly Tulare County Environmental Health Department (EHD) regulatory fees. GV has historically incorrectly charged the regulatory fees to Account #408, Taxes Other Than Income Taxes. Staff has redirected these fees to this account.

GV was informed of the Branch's differing views of revenues, expenses and rate base and it agrees with the Branch's findings.

The filing also included an additional request for recovery in the amount of \$2,296. Recovery was requested in the form of a one-time surcharge of \$23.19 per customer. This recovery was for personal funds provided by Mr. Smith to GV for expenses incurred. GV did not have CPUC authority for such a loan and therefore this surcharge should be denied.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to return on rate base method for Class C and Class D utilities. Thus, two methods are available to Staff to utilize in the ratemaking process: Return on Rate Base (not investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio

method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance and depreciation expenses.

Comparison of the revenue requirement indicates that the operating ratio method produces a higher revenue requirement than the return on rate base method. In keeping with policy, Staff recommends the operating ratio method for determining the revenue requirement.

GV did not estimate average plant-in-service because it chose to determine revenue requirement based on the operating ratio method to yield a 20% margin over expenses. However, the depreciable plant-in-service account for GV, as of December 31, 2001, was \$27,226. This figures includes the allocation of the vehicle and well drilling/repairs, up to that date. The utility indicates that \$26,052.64 was spent from January 2002 through April 2002 for well drilling and associated repairs. Staff has been supplied with invoices supporting these expenses.

It is Commission policy not to allow plant additions until the plant item is being used and is useful to the utility. Staff notes that \$26,052.64 has been added to plant and is currently used and useful, while the future repairs are not yet used and useful. Staff's estimate for average plant-in-service is \$40,250 for Test Year 2002.

There are no outstanding Commission orders requiring system improvements. However, Staff notes that Watertek has failed to comply with Ordering Paragraph No. 1d and 1e of D.01-08-004 which states:

- d. Within 10 days after the acquisition, Watertek, shall file an advice letter in the form prescribed by General Order 96 canceling the tariffs of Grand View Gardens and making only such revisions to the tariffs as are necessary to reflect the transfer of control to Watertek. Concurrently with this advice letter filing, Watertek shall provide a separate compliance letter to the Commission's Water

Division which gives notice of the date on which the acquisition and transfer were effective and attaches true copies of the sale and transfer documents.

- e. Within 90 days after acquisition and transfer, Watertek shall file in proper form an annual report on the operations of Grand View Gardens from the first day of the year through the effective date of the acquisition and transfer of the water system.

With the exception of the GV's annual report, as referenced above, Watertek has regularly been filing the required annual reports. However, Staff notes that annual reports for Watertek's individual districts are not being filed with complete information. Information on several schedules is missing, with the reader being referred to Watertek's consolidated annual report. This has posed a significant problem for Staff in determining plant-in-service and accumulated depreciation reserve for ratemaking purposes. Staff notes that Watertek should file complete annual reports for each district if each district is to be treated as a separate entity for ratemaking purposes.

Staff has reviewed Watertek's tariff sheets and has determined that the entire tariff book needs to be corrected to reflect Watertek's ownership of the GV district (the original Grand View Water Company's tariff book is still being utilized). In addition, Watertek's entire tariff book needs to be corrected to reflect all governing rules, forms, and schedules. Staff notes that Watertek should have separate tariff books for its water and sewer systems. Included in the water systems tariff book should be East Plano, Grandview Garden, and Metropolitan; included in the sewer tariff book should be Indian Springs, Oak Hills, and Spreckles.

Staff has also reviewed copies of GV's bills and has determined that they do not conform with the format requirements of Tariff Section B of Rule No. 5. In addition, the bills do not separately identify the monthly service charge and the PUC reimbursement fee.

GV's current rate structure consists of two schedules: Schedule No. 1, General Metered Service, and Schedule No. 2R, Residential Flat Rate Service. There are currently no customers being served under Schedule No. 1.

Schedule No. 2R consists of a two-block rate structure: (1) a rate for customers whose premises do not exceed 10,000 square feet (sq. ft.) in area and (2) an additional rate charge for each 100 sq. ft. in excess of the 10,000 sq. ft. All customers would pay the first rate structure and any customers whose premises exceed the 10,000 sq. ft. limit would pay the additional rate charge. With this rate structure, the GV district has 90 different rates that it bills its 99 customers. GV has requested that the two-block rate structure be revised to a single-block structure. Staff can see no reason to maintain the current two-block rate structure and will therefore agree with GV's request for a single-block rate structure.

Schedule No. 2R rates were designed by simply dividing the 2002 Test Year revenue by the number of customers. Schedule No. 1 rates were designed by increasing each component by the overall percentage increase. The new rate schedules can be found in Appendix B. Bill comparisons can be found in Appendix C.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer would increase from \$20.53 to \$46.82 per month. 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.

Watertek has continued to expand its operations to include several new systems since 1996. Mr. Smith is responsible for seven systems in various areas of California, which could possibly place existing customers in danger due to Mr. Smith's inability to operate that many systems efficiently. Staff recommends that the Commission instruct Mr. Smith that no additional systems can be added until all districts have been evaluated.

### **NOTICE AND PUBLIC MEETING**

Customer notices of the proposed rate increase were mailed to each customer on August 16 and October 5, 2001. One protest was received by the Staff, which indicated objection to the proposed rate increase and quality of water. From February 4, 2001 to February 4, 2002, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding GV.

On February 6, 2002, Staff held an informal public meeting near GV's service area with two customers attending. Mr. Mohsen Kazemzadeh, Senior Utilities Engineer, explained the Commission rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

## **FINDINGS**

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
5. GV did not have Commission authority for a personal loan made by Mr. Ray Smith.
6. Watertek does not maintain a vehicle log that clearly identifies charges for all utility-related transportation expenses for each of its districts.
7. Watertek is not in compliance with Ordering Paragraph No. 1d and 1e of D.01-08-004.
8. Watertek does not file complete annual reports for each of its districts that would permit district-specific accounts to be easily identified.
9. Watertek's tariff book is not up-to-date and is incomplete.
10. Watertek's bills are not in compliance with Rule No. 5.
11. Watertek continues to expand its operations to include several new systems since 1996. Commission should instruct Mr. Smith that no additional systems can be added until all districts have been evaluated.

## **THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public utilities Code Section 454 to WATERTEK, INC., GRANDVIEW GARDENS DISTRICT, to file an advice letter

incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service, and Schedule No. 2R, Residential Flat-Rate Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.

2. Watertek should be ordered to maintain a detailed transportation log that will clearly identify utility-related expenses for each of its districts.
3. Watertek should be ordered to file complete annual reports for each of its districts.
4. Watertek should be ordered to update its tariff book and file two separate books: one for the water systems and one for the sewer systems. The water systems tariff book should include the East Plano, Grandview Garden, and Metropolitan districts. The sewer tariff book should include Indian Springs, Oak Hills, and Spreckles districts.
5. Watertek should be ordered to bring all bills into compliance with Rule No. 5.
6. Watertek should be ordered to cease adding additional systems until its other districts have been evaluated for rate increases.
7. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 24, 2002; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
CARL W. WOOD  
GEOFFREY F. BROWN  
MICHAEL R. PEEVEY  
Commissioners



**Appendix A**  
**Watertek, Inc. – Grandview Gardens District**  
**SOE - Test Year 2002**

Description	GV Present Rates	GV Requested Rates	Branch Present Rates	Branch Requested Rates	Branch Recommended Rates
<b>OPERATING REVENUES</b>					
Flat Rate Water Revenues	26,813	46,629	24,390	45,890	55,620
TOTAL REVENUES					
<b>OPERATING EXPENSES</b>					
Purchased Power	1,754	1,754	5,050	5,050	5,050
Other Volume Related Exp.	1,543	1,543	1,460	1,460	1,460
Employee Labor	3,935	3,935	10,700	10,700	10,700
Materials	760	760	590	590	590
Contract Work – General Exp.	757	757	1,200	1,200	1,200
Contract Work – Water Testing	3,527	3,527	2,785	2,785	2,785
Transportation Expenses	2,177	2,177	960	960	960
Other Plant Maintenance Exp.	5,964	5,964	4,040	4,040	4,040
Office Salaries	4,272	4,272	3,605	3,605	3,605
Management Salaries	2,186	2,186	1,350	1,350	1,350
Employee Pensions and Benefits	328	328	575	575	575
Uncollectible Accounts Exp.	0	0	0	0	0
Office Services and Rentals	2,828	2,828	1,430	1,430	1,430
Office Supplies and Expenses	1,464	1,464	2,025	2,025	2,025
Professional Services	725	725	105	105	105
Insurance	1,263	1,263	1,910	1,910	1,910
Regulatory Commission Exp.	338	338	335	335	335
General Expenses	0	0	2,390	2,390	2,390
SUBTOTAL	33,822	33,822	40,510	40,510	40,510
Depreciation Expense	654	654	1,210	1,210	1,210
Taxes Other Than Income Taxes	2,134	2,134	3,130	3,130	3,130
Income Taxes	800	3,028	800	800	2,425
TOTAL DEDUCTIONS	37,410	39,638	46,650	46,650	47,275
NET REVENUE	<10,597>	6,992	<21,260>	240	8,345
<b>RATE BASE</b>					
Average Plant			40,250	40,250	40,250
Avg. Accumulated Depreciation.			1,010	1,010	1,010
NET PLANT			39,240	39,240	39,240
Working Cash.			0	0	0
Materials and Supplies			0	0	0
RATE BASE			39,240	39,240	39,240
<b>MARGIN RATE</b>					
		20%			20%

(END OF APPENDIX A)

**Appendix B  
(Page 1 of 2)  
Watertek, Inc. – Grandview Gardens District**

**Schedule No. 1  
GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The area known as Tract No. 313 and vicinity, located one-half miles northwest of Porterville, Tulare County.

**RATES**

Quantity Rates:	<u>Per Month</u>	
All water, per 100 cu. ft. ....	\$ 0.68	(I)
Service Charge:		
For 5/8 x 3/4-inch meters .....	\$ 65.27	(I)
For 3/4-inch meters .....	\$ 97.90	
For 1-inch meters .....	\$163.16	
For 1-1/2-inch meters .....	\$326.28	
For 2-inch meters .....	\$522.05	(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 Rate.

**SPECIAL CONDITIONS**

1. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
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 to the account of the landlord or property owner.

**Appendix B  
(Page 2 of 2)  
Watertek Inc. – Grandview Gardens District**

**Schedule No. 2R  
RESIDENTIAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all flat rate water service.

**TERRITORY**

The area known as Tract No. 313 and vicinity, located one-half miles northwest of Porterville, Tulare County.

**RATES**

	Per Service Connection <u>Per Month</u>	
For all customers .....	\$ 46.82	(I)

**SPECIAL CONDITIONS**

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by above classification will be furnished only on a meter basis.
3. The monthly flat rate charge is due in advance, in accordance with the utility's established billing periods.
4. All rates are subject to the reimbursement fee set forth in Schedule No. UF.
5. A late charge will be imposed per Schedule No. LC.
6. 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 to the account of the landlord or property owner.

(END OF APPENDIX B)

**Appendix C**

**Watertek Inc. – Grandview Gardens District**

**Comparison of Rates - Test Year 2002**

	Per Service Connection Per Month		
	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
For single family residential unit	\$ 20.53	\$ 46.82	128.1%

(END OF APPENDIX C)

**Appendix D**  
**(Page 1 of 2)**  
**Watertek Inc. – Grandview Gardens District**  
**Recommended Quantities - Test Year 2002**

1. Federal Tax Rate: 15% for 1<sup>st</sup> \$50,000 of taxable income  
25% for next \$25,000 of taxable income  
34% for next \$25,000 of taxable income  
39% for next \$235,000 of taxable income
2. State Tax Rate: 8.84%
3. Service Connections:  
99 flat rate  
0 metered
4. Property Taxes: \$1,260  
1.0% tax rate
5. Payroll Taxes: \$1,870
6. Contract Work - Water Testing: \$2,785
7. Purchased Power

Southern California Edison, Schedule No. PA-1  
Power-Agricultural and Pumping Connected Load Basis  
Effective September 20, 2001

Energy Charge:  
kWh used: 36,480  
\$/kWh: \$0.12247  
Customer Charge:  
\$/mo.: \$17.65  
Service Charge:  
\$/pump/mo.: \$2.05

**Appendix D  
(Page 2 of 2)  
Watertek Inc. – Grandview Gardens District  
Recommended Quantities - Test Year 2002  
(Continued)**

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 55,620	\$ 55,620
2.	Expenses	\$ 40,510	\$ 40,510
3.	Taxes Other Than Income Taxes	\$ 3,130	\$ 3,130
4.	Depreciation	\$ 1,210	\$ 1,210
5.	State Taxable Income	\$ 10,770	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 952	
7.	Federal Taxable Income		\$ 9,818
8.	Federal Income Tax (@15%)		\$ 1,473
9.	TOTAL INCOME TAX		\$ 2,425

(END OF APPENDIX D)