

WATER/SNR/MXK/AJT:jj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4431
October 16, 2003

R E S O L U T I O N

(RES. W-4431), INTERSTATE-5 UTILITY COMPANY, INC.-WATER (I-5WC). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUES OF \$14,068 OR 32.9% FOR TEST YEAR 2002.

SUMMARY

By Draft Advice Letter accepted on June 17, 2002, I-5WC seeks a 40% increase in rates for water service to recover increases and provide an adequate rate of return on its capital investment. This Resolution grants an increase in gross annual revenues of \$14,068, or 32.9% for test year 2002. The increase will provide a 12.5% rate of return on rate base in the test year. Res. W-4362 adopted on November 7, 2002, granted I-5WC an interim rate increase of \$12,096, or 27.24%, due to I-5WC's negative cash flow problem.

BACKGROUND

I-5WC is a Class D utility and serves approximately 18-metered commercial customers in a service area located approximately 23 miles west of the City of Bakersfield. I-5WC's service area consists of an unincorporated area of Kern County near Buttonwillow at the intersection of Interstate Route 5 and State Route 58.

I-5WC 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 \$19,409 or 40% in 2002. I-5WC's request shows 2002 revenues of \$42,775 at present rates increasing to \$62,185 at proposed rates to produce a rate of return on rate base of 18.6%. The Water Division (WD) recommends increasing rates by \$14,068, or 32.9% increasing revenues to \$56,844 at recommended rates to produce a rate of return on rate base of 12.5%.

I-5WC's last general rate case was approved on October 25, 1996, by Res.W-4005, which authorized a rate increase of \$1,102 or 2.85% in 1996. The rates were further increased on September 13, 1999, by 1.6% to reflect the increase in the Consumer Price Index.

At the onset of the filing of this advice letter, the Audit and Compliance Branch of the WD discovered a negative cash flow problem, thus necessitating an interim rate increase subject to refund. Res. W-4362 adopted on November 7, 2002, granted I-5WC an interim increase of \$12,096, or 27.24%. This increase provided I-5WC with no rate of return on rate base, but with sufficient monies to pay its current operating expenses.

DISCUSSION

I-5WC is a corporation owned by Mr. James P. Sears. Mr. Sears is also the president of I-5WC. In addition to Mr. Sears, I-5WC utilizes the management services of the controller and bookkeeping staff of the Herbert P. Sears Company, Inc.. A part-time operator, who works solely on contract basis, provides general operation and maintenance of the water system and records meter readings.

James P. Sears also owns Herbert P. Sears Company, Inc., and Dardana, Inc.. James P. Sears and Dardana, Inc. jointly own McKihrick-5 as a partnership. McKihrick-5 owns the land on which some of the utility's water facilities are located. I-5WC pays rent to McKihrick-5 for using its property, which is designated for public use.

I-5WC obtains its water from two wells. One produces 200 gallons per minute (gpm) and the other 170 gpm. Water from the wells is pumped by a 20-horsepower (hp) pump at each well to two 40,000-gallon steel riveted storage tanks and then from the tanks to the distribution system. Water supply is sufficient to meet customer demand and I-5WC meets all provisions of General Order 103.

The WD staff made an independent analysis of I-5WC's operations and issued its report in June 2003. Appendix A shows I-5WC's and WD's estimated summary of earnings at present, requested, and adopted rates for the test year. Appendix A also shows differences in operating revenues, operating expenses, and rate base. I-5WC was informed of WD's differing views on revenues, expenses, and rate base and agreed with the WD's estimates.

I-5WC estimated that the draft advice letter requested rates would produce a return on rate base of 13.75%. The summary of earnings in Appendix A shows a rate of return of 12.5% at WD's recommended rates. The rate of return is the bottom of the range of 12.50% to 13.50% recommended by the Audits and Compliance Branch of the WD for Class D Water utilities due to I-5WC's lower operational risk for serving commercial customers.

I-5WC filed tariff currently contains one rate schedule: No. 1, General Metered Service. The rates proposed by WD in Appendix B recover 100% of I-5WC's revenue requirements through service and quantity charges consistent with current rate design policy for Class D Water Utilities. WD's proposed rates for the various meter sizes are consistent with current rate design policy.

At WD's recommended rates shown in Appendix B, the monthly bill for a 1-inch general meter customer using 75 Ccf of water will increase from \$57.93 to \$77.17 or 33.2%. The monthly bill for a 2-inch customer using 300 Ccf (One Ccf is equal to one hundred feet) of water will increase from \$208.79 to \$278.14 or 33.2%. The monthly bill for a 3-inch customer using 1000 Ccf of water will increase from \$562.10 to \$748.79 or 33.2%. 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.

AUDIT OF ACCOUNTING RECORDS

The WD staff audited I-5WC's operating expenses, including salaries and contracting fees, purchased power, insurance expenses, income, and other taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and concluded that the operating expenses were reasonable and prudent.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on September 18, 2002. The WD received no protests or comments. A public meeting was scheduled for Thursday, October 17, 2002, at 6:00 p.m. at the Kern County Public Library, Beale Branch, 701 Truxton Avenue. No members of the public or customers attended the meeting.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

I-5WC needs to update its Tariff Schedules, Rules and Forms: Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.

I-5WC should maintain a binder of its current tariff sheets in its corporate office and make it available to the general public for review during normal business hours. Currently I-5WC does not have a complete set of tariffs. Staff will work with the utility to provide I-5WC with a complete set of the current tariffs, but moving forward, I-5WC is required to maintain an organized tariff binder in its office.

I-5WC has been filing annual reports as required. Schedule A of the Annual Report shows water and sewer assets combined. Since the water and sewer utilities are two separate entities with two separate certificates for public convenience and necessity, the assets of each utility (water and sewer) should be shown separately in separate annual reports even if allocation needs to be made for shared assets. I-5WC should be required to cease consolidating water and sewer assets in Schedule A of its annual report filings and show separately its water and sewer assets for the respective water and sewer operations in separate reports.

Although there have been little to no complaints during the past 5 years, the utility should maintain a file to record customer complaints and actions taken to resolve these complaints. Such records should be maintained in a binder in the utility's offices for a minimum of 5 years, or until the next General Rate Case, and be available for inspection by Commission staff at anytime.

FINDINGS AND CONCLUSIONS

1. The WD's recommended summary of earnings (Appendix A) is reasonable and should be adopted.

2. The rates recommended by the WD (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop WD's recommendations are reasonable and should be adopted.
4. I-5WC should update its Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and Restoration of Service; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.
5. I-5WC should maintain a binder of its current tariff sheets in its corporate office and shall make it available to the general public for review during normal business hours.
6. I-5WC should cease consolidating both water and sewer assets in its annual report filings and file separate annual reports that show separately its water and sewer activities for the respective water and sewer operations.
7. I-5WC should maintain a binder for complaint logging. Such records should be maintained in the utility's offices for a minimum of 5 years, or until the next General Rate Case, and available for inspection by Commission staff at anytime.
8. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Interstate-5 Utility Company, Inc.-Water to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedule: No. 1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. Interstate-5 Utility Company, Inc.-Water shall update its Schedule LC, Late Payment Charge; Preliminary Statement; Rule 3, Application for Service; Rule 5, Special Information Required on Forms; Rule 7, Deposits; Rule 9, Rendering and Payment of Bills; Rule 10, Disputed Bills; Rule 11, Discontinuance and

Restoration of Service; Form No. 2, Customer's Deposit Receipt; and, Form No. 3, Bill for Service.

3. Interstate-5 Utility Company, Inc.-Water shall maintain a binder of its current tariff sheets in its corporate office and make it available to the general public for review during normal business hours.
4. Interstate-5 Utility Company, Inc.-Water shall cease consolidating both water and sewer assets in its annual report filings and file individual annual reports for the respective water and sewer operations.
5. Interstate-5 Utility Company, Inc.-Water shall maintain a binder for complaint logging. Such records should be maintained in the utility's offices for a minimum of 5 years, or until the next General Rate Case, whichever is later, and be made available for inspection by Commission staff at anytime.
6. This resolution is effective today.

I hereby 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 16, 2003; the following Commissioners approved it:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M.LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A

Interstate-5 Water Company

Summary Of Earnings
Test Year 2002

Description	I-5 Present Rates	I-5 Requested Rates	Staff Present Rates	Staff Requested Rates at 12.50%	Staff Recommended Rates
Operating Revenues					
Service Charge Revenue	\$21,065	\$29,491	\$21,065	\$28,065	\$28,065
Quantity Charge Revenue	\$23,345	\$30,396	\$21,711	\$28,779	\$28,779
Total Revenue	\$44,410	\$62,185	\$42,776	\$56,844	\$56,844
Operating Expenses					
Power	\$21,941	\$21,941	\$21,446	\$20,159	\$20,159
Materials	\$0	\$0	\$0	\$0	\$0
Contract Work	\$13,589	\$13,589	\$10,948	\$10,948	\$10,948
Laboratory Services	\$0	\$0	\$0	\$0	\$0
Transportation	\$0	\$0	\$0	\$0	\$0
Plant Maintenance	\$8,972	\$8,972	\$6,689	\$6,689	\$6,689
Office Salaries	\$0	\$0	\$0	\$0	\$0
Management Salaries	\$1,200	\$1,200	\$1,363	\$1,363	\$1,363
Uncollectable Accounts	\$154	\$154	\$154	\$154	\$154
Rent of Land	\$5,040	\$5,040	\$7,560	\$7,560	\$7,560
Professional Services	\$3,224	\$3,224	\$3,224	\$3,224	\$3,224
Insurance	\$1,728	\$1,728	\$1,728	\$1,728	\$1,728
General Expense	\$787	\$787	\$436	\$436	\$436
Subtotal	\$56,635	\$56,635	\$53,548	\$52,261	\$52,261
Depreciation	\$462	\$462	462	462	\$462
Payroll Taxes	\$0	\$0	\$0	\$0	\$0
Property Taxes	\$837	\$837	\$837	\$837	\$837
Permits & Fees	\$0	\$0	\$0	\$0	\$0
State Income Taxes	\$240	\$240	\$800	\$800	\$800
Federal Income Taxes	\$844	\$844	\$0	\$373	\$373
Total Deductions:	\$59,018	\$59,018	\$55,647	\$54,733	\$54,733
Net Revenue	-\$14,608	\$3,167	-\$12,871	\$2,111	\$2,111
Rate Base					
Average Plant	\$154,098	\$154,098	\$154,098	\$154,098	\$154,098
Average Dep. Reserve	\$117,956	\$117,956	\$117,956	\$117,956	\$117,956
Net Plant	\$36,142	\$36,142	\$36,142	\$36,142	\$36,142
Less: Contributions	\$23,610 *	\$23,610 *	\$23,610	\$23,610	\$23,610
Plus: Miscellaneous	\$0	\$0	\$0	\$0	\$0
Plus: Working Cash	\$0	\$0	\$4,462	\$4,355	\$4,355
Mat'l & Supplies	\$0	\$0	\$0	\$0	\$0
Total Rate Base	\$16,994 *	\$16,994 *	\$16,994	\$16,887	\$16,887
Rate of Return	-86.0%	18.6%	-76%	12.50%	12.50%

* When filing the new "Informal Rate Change Workpapers", I-5WC incorrectly included the the entire unamortized amount of contributed plant of \$125,326. Staff adjusted this figure to subtract the amortizations of contributed plant and calculates \$23,610 for the net amount for contributed plant.

(End of Appendix A)

APPENDIX B

Interstate-5 Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The commercial and industrial development in the vicinity of the interchange of Interstate 5 and State Route 58, near Buttonwillow in Kern County.

RATES

Monthly Quantity Rate:

For all water, per 100 cu. ft.	\$0.5170	(I)
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Monthly Service Charge:

	Per Meter	
	<u>Per Month</u>	
For 1-inch meter	\$ 38.21	(I)
For 2-inch meter	\$122.29	(I)
For 3-inch meter	\$229.29	(I)

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

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(End of Appendix B)

APPENDIX C

Bill Comparison

A comparison of monthly customers bills at present and Water Division's recommended rates for test year 2002 are shown below:

Metered Rate Service

Service Charge

<u>Size of Meter</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
1"	\$28.68	\$38.21	33.2%
2"	\$91.79	\$122.29	33.2%
3"	\$172.10	\$229.29	33.2%

Quantity Charge

Per 100 Cubic Feet:	\$0.39	\$0.5170	32.6%
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Cost per Customer per Month at Different Usage Levels:

<u>Ccf Water Use Per Month</u>	<u>Size of Meter</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
0	1"	\$28.68	\$38.21	\$9.53	33.2%
50	1"	\$48.18	\$64.06	\$15.88	33.0%
75	1"	\$57.93	\$76.99	\$19.06	32.9%
100	1"	\$67.68	\$89.91	\$22.23	32.8%
150	2"	\$150.29	\$199.84	\$49.55	33.0%
175	2"	\$160.04	\$212.77	\$52.73	32.9%
200	2"	\$169.79	\$225.69	\$55.90	32.9%
300	2"	\$208.79	\$277.39	\$68.60	32.9%
500	3"	\$367.10	\$487.79	\$120.69	32.9%
750	3"	\$464.60	\$617.04	\$152.44	32.8%
1000	3"	\$562.10	\$746.29	\$184.19	32.8%
1250	3"	\$659.60	\$875.54	\$215.94	32.7%

(End of Appendix C)

APPENDIX D

Recommended Quantities – Test Year 2002

EXPENSES

1. Federal Tax Rate: 15% for 1st \$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% or \$800 Minimum

3. Purchased Power: 118,743 kWh

4. Service Connections

For 1-inch meter	6
For 2-inch meter	6
For 3-inch meter	6

TOTAL: 18

5. Metered water sales used to design rates: 55,670 Ccf

6. Property Taxes: \$837

7. Payroll Taxes: \$0

8. Contract Work: \$10,948

9. Adopted Tax Calculations

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenues	\$56,844	\$56,844
2.	Expenses	\$52,261	\$52,261
3.	Taxes Other Than Income Taxes	\$837	\$837
4.	Depreciation	\$462	\$462
5.	State Taxable Income	\$3,284	
6.	State Income Tax	\$800	
7.	Federal Taxable Income		\$2,484
8.	Federal Income Tax		\$373
9.	TOTAL INCOME TAX	\$1,173	

(End of Appendix D)