

Decision No. 85132

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

KERN ISLAND WATER COMPANY,  
a corporation,

for an order under Section 454 of the Public Utilities Code authorizing Kern Island Water Company-Ashe Water Service Area an increase in rates charged for domestic water services to offset increased gas and electric rates, Kern County Water Agency Pump Tax and Kern County Water Agency Ad Valorem Tax related to domestic water service.

Application No. 55776

(Filed June 30, 1975)

O P I N I O N

Kern Island Water Company (Kern) seeks authority to increase its metered domestic water rates in its Ashe Water Service Area (AWSA) approximately \$70,200 (31 percent) annually to offset increased purchased gas and electric costs, a recently imposed Kern County Water Agency ad valorem tax effective July 1, 1975, and a recently imposed Kern County Water Agency pump tax also effective July 1, 1975.

Kern is a California corporation engaged in the production, distribution, sale, and transportation of water for irrigation, domestic, and temporary use in various areas in Kern County, California. AWSA serves approximately 2,700 domestic customers located in the community of Stockdale immediately southwest of the city of Bakersfield.

The presently effective rates are as authorized by Decision No. 63411 dated March 13, 1962 in Application No. 43565 and modified by rates, effective May 1, 1963, filed with Advice Letter No. 5 and by rates effective June 6, 1965, filed with Advice Letter No. 9.

Increased Electric Power and Gas Costs

Since June 6, 1965, the effective date of Kern's AWSA water rates, this Commission has granted Pacific Gas and Electric Company (PG&E) and Southern California Gas Company several rate increases resulting in increased electric power and gas costs. Based on the recorded year 1974 and gas and electric rates in effect on January 1, 1975, Kern estimates that for the calendar year 1975 its AWSA purchased power and gas costs will be approximately \$19,662 higher than at gas and electric rates in effect on June 6, 1965. The computations of these increased costs are set forth in Exhibit D to the application.

Ground Water Replenishment Assessments

Water for Kern's AWSA is obtained from wells located in Improvement District No. 4 of the Kern Water Agency. Following public hearings, the Board of Directors of Kern County Water Agency levied a pump tax of \$15 per acre-foot for all water other than agricultural water produced from ground water supplies within Improvement District No. 4 for the 1975-1976 water year. Based on Kern's AWSA 1974 recorded sales of 1,707,620 Ccf plus 7 percent system losses, the pump tax amounts to \$62,919 as set forth in Exhibit E to the application.

In addition, the Kern County Water Agency levied an ad valorem tax of \$0.5975 per \$100 assessed valuation for the fiscal year 1975-1976 to pay the debt service portion on the long-term debt of Improvement District No. 4. Based on the

March 1, 1974 assessed valuation of Kern's AWSA of \$420,340 this ad valorem tax assessment would amount to \$2,511.53. The derivation of this amount is also set forth in Exhibit E to the application. The combined Kern County Water Agency pump tax and ad valorem tax increases Kern's AWSA annual operating costs by \$65,431.

Results of Operation

The Commission staff prepared a report dated August 22, 1975 setting forth the results of its investigation and analysis of the application. This report, received as Exhibit 1, states that the staff has reviewed information contained in its application, Kern's work papers, and office records. The staff does not take issue with Kern's computations of the increased electric power and gas costs nor with the computations of the Kern County Water Agency pump or ad valorem taxes. In addition, the staff has accepted as reasonable Kern's estimate of \$15,300 investment credit savings resulting from the 1975 Federal Tax Reduction Act increasing investment tax credit for certain utilities from 4 percent to 10 percent.

The staff does, however, disagree with Kern's method of computing income tax for AWSA as though it were an independent taxpaying entity. The staff alleges that the income tax should be computed for Kern's entire operations and then allocated to the various operations as was done in Decision No. 81820, dated August 28, 1973 in Application No. 53592. Such a method of computing income taxes reduces the amount of income tax for Kern's AWSA operations from a negative \$17,700 to a negative \$34,800, a reduction of \$17,100. The staff method is reasonable and will be adopted. The staff concludes that Kern is entitled to a revenue increase of \$53,000, or 23.4 percent, to offset

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ground water replenishment assessments of \$65,431 plus increased costs of power and gas of \$19,662, less savings of \$32,400 in federal income taxes, plus franchise fees of \$300. We also take official notice of our most recent decision regarding PG&E's electric rates. The order that follows will provide for an increase of the amount of \$53,000 plus additional \$8,800 to offset PG&E's increase in electric power rates effective September 16, 1975.

The following tabulation compares the summary of earnings for recorded year 1974 at present rates and at the adopted rates.

Item	Recorded at Present Rates	Adjustment	Adjusted at Adopted Rates
	(a)	(b)	(c)
(Dollars in Thousands)			
Operating Revenues	\$ 226.1	\$ 61.8	\$ 287.9
Operating Expenses			
Source of Supply	11.8	-	11.8
Pumping Expenses	17.8	-	17.8
KCWA Assessments	-	65.4	65.4
Electric Power & Gas	37.7 <sup>1/</sup>	28.5 <sup>4/</sup>	66.2
Transmission & Distribution	23.8	-	23.8
Customer Account Expense	12.0	-	12.0
Administrative & General Expense	16.3	-	16.3
Franchise Tax	1.0	0.3	1.3
Property Tax	40.4	-	40.4
Depreciation	51.1	-	51.1
Subtotal	\$ 211.9	\$ 94.2	\$ 306.1
Income Taxes <sup>2/</sup>	\$ (17.7)	\$ (17.1)	\$ (34.8) <sup>2/</sup>
Investment Credit	(10.1)	(15.3) <sup>3/</sup>	(25.4)
Net Operating Revenue	42.0	-	42.0
Depreciated Rate Base	1,136.6	-	1,136.6
Rate of Return	3.70%		3.70%

(Negative)

<sup>1/</sup> Power and gas costs rolled back to 1962.

<sup>2/</sup> Negative taxes per staff report A. 53592, Appendix A and Decision No. 81820.

<sup>3/</sup> 1975-1976 tax savings due to investment tax credit.

<sup>4/</sup> Reflects PG&E increase in electric rates effective September 16, 1975.

Rates

Both the Commission staff and Kern recommend a uniform increase per 100 cubic feet of water. Based on 1974 recorded sales of 1,707,620 Ccf, a uniform increase of \$0.036 per 100 cubic feet is required to provide the \$61,800 revenue increase. While this recommended rate structure and amount will be adopted, it is the intention of the Commission to hereafter implement a rate structure which will include a "lifeline" rate for water service.

Service

The Commission staff's engineer inspected the system on July 18, 1975 and concluded that service is adequate.

The water supply is obtained from eight well pumps located at different points interconnected to the system. Six pumps are electric motor driven and two are natural gas engine driven. All pumps operate automatically. The system is in good condition with respect to design and maintenance. Water quality and pressure are good. A check of the staff's informal complaint files for the last three years was made and no complaints were found.

Findings

1. Applicant is in need of increased revenues to offset increases in purchased gas and electric power costs and recently imposed pump and ad valorem taxes.
2. Applicant's requested increase of \$70,200 (31 percent) for its Ashe Water Service Area metered rates is excessive.
3. The Commission staff's recommended increase of \$53,000 plus \$8,800 to offset PG&E's electric rate increase of September 16, 1975 for a total of \$61,800 (27.3 percent) for applicant's Ashe Water Service Area operations is reasonable and should be adopted.

4. The increases authorized herein will offset increased purchased gas and electric costs and recently imposed pump and ad valorem taxes, but will not produce revenues that will result in a rate of return in excess of the rate of return found reasonable in Decision No. 63411 dated March 13, 1962 in Application No. 43565.

5. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

A public hearing is not necessary.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R


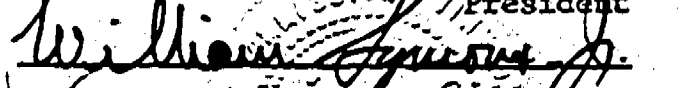

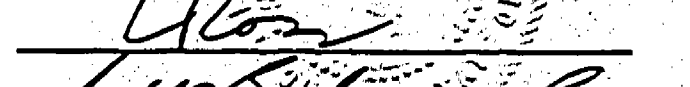
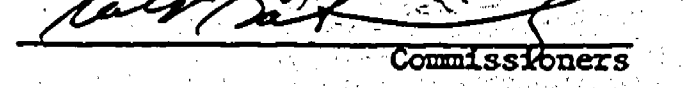
IT IS ORDERED that after the effective date of this order, Kern Island Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to cancel and withdraw presently effective schedules for the general metered services. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing.

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The revised schedules shall apply only to service rendered on and after the effective date thereof.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California,  
this 18th day of NOVEMBER, 1975.

  
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President  
  
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William L. Stinson  
  
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Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stockdale Community, and vicinity, located immediately southwest of the City of Bakersfield, Kern County.

RATES

<u>Quantity Rates:</u>		<u>Per Meter</u> <u>Per Month</u>
First 1,250 cu.ft., or less .....	\$ 3.95	(I)
Next 1,250 cu.ft., per 100 cu.ft. ....	.236	
Next 2,500 cu.ft., per 100 cu.ft. ....	.211	
Next 5,000 cu.ft., per 100 cu.ft. ....	.181	
Next 10,000 cu.ft., per 100 cu.ft. ....	.151	
Over 20,000 cu.ft., per 100 cu.ft. ....	.121	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.95	(I)
For 3/4-inch meter .....	4.50	
For 1-inch meter .....	7.50	
For 1-1/2-inch meter .....	10.00	

(Continued)



APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

RATES - Contd.

Minimum Charge:

		Per Meter Per Month
For	2-inch meter .....	\$ 15.00
For	3-inch meter .....	28.00
For	4-inch meter .....	45.00
For	6-inch meter .....	100.00
For	8-inch meter .....	150.00
For	10-inch meter .....	200.00

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.