

Decision 84 07 008

JUL 5 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of KERNVILLE DOMESTIC  
WATER COMPANY to increase water  
rates by approximately 33.2% with  
a 1982 test year.

Application 61021  
(Filed November 2, 1981;  
amended February 17, 1982)

(See Decision 82-07-019 for appearances.)

FINAL OPINION

Decision (D.) 82-07-019, which we issued to Kernville Domestic Water Company (Kernville) on July 7, 1982, was an interim opinion in that it granted a partial rate increase (8.5% rate of return) with an additional increase (2.5% rate of return) authorized if and when Kernville demonstrated, by certain actions required by the interim order, that it had improved its level of service and its water quality.

Kernville has now made its compliance filing, filed January 9, 1984. Staff has indicated its concurrence with Kernville's compliance assertions by a letter to the administrative law judge dated May 18, 1984. The actions described in Kernville's compliance filing, as illuminated by staff's comments, substantially meet the requirements of D.82-07-019.

Requirements

Ordering Paragraph 2 of D.82-07-019 lists eight items (a through h) which Kernville was to accomplish over varying lengths of time, not exceeding one year.

Ordering Paragraph 3 gives Kernville two alternative means of demonstrating compliance for purposes of receiving the additional rate increase. The first is to demonstrate to the Commission, within nine months, that all eight improvements have been accomplished. Kernville chose to comply with the second which requires that:

"...Items a, g, and h have been accomplished, that Item b has been commenced, and that [Kernville] has a commitment or the reasonable expectation of a commitment for funds [about \$400,000]...for the expeditious completion... of the rest of the items."

Item a

Item a requires Kernville to file with staff, by January 5, 1983, "a written plan for regular main replacement adequate to bring the system up to the fire-flow requirements set forth in Section VIII of General Order 103."

Kernville estimates the cost of this project at \$230,000, reminding the Commission that the rate base for D.82-07-019 was only \$184,000 and that we granted Kernville the authority to enter into a Safe Drinking Water Bond Act (SDWBA) loan contract for up to \$412,000 with the California Department of Water Resources in D.83-06-094 issued June 29, 1983. That loan, which has been granted in the amount of \$400,000, is for the purpose of making the improvements required by D.82-07-019. Further, in order to pay back the loan, we authorized Kernville to add a surcharge to its water rates. This surcharge comes to about \$6.65 per month for the average residential customer.

As a result of these factors, Kernville proposes a rather slow main replacement program. Specifically, it proposes investing all profits attributable to Kernville plus depreciation taken, less interest of \$8,800, to annual main replacement. While Kernville's compliance filing states that staff favors a faster completion, staff has not expressed any opposition to the compliance filing and we agree with Kernville that any faster program is likely to result in unacceptably high rates since these costs are not covered by the \$400,000 loan. Thus, we consider Kernville's action regarding Item a of Ordering Paragraph 3 to be sufficient to meet our requirement.

Item g

This item requires Kernville to file with staff, by January 7, 1983, a report outlining the results of an investigation into the feasibility of obtaining rights to Kern River water. A report was timely filed; however, negotiations went far beyond January 1983. Kernville states that in July 1983 it received a final draft of an exchange agreement with "Kern River Interests" (referred to in other correspondence as the Kern River Watermaster). Kernville states that it rejected the agreement for three reasons. First, and most important, Kernville wanted a "banking provision" which the Watermaster would not grant. That is, Kernville contends it is essential to be able to pump into the river at a fairly constant rate year round, regardless of use. This would allow Kernville to draw more water than it is actually pumping into the river during periods of high demand, such as summertime. Kernville points out that the State Department of Health Services (DHS) also tried to negotiate for this provision on behalf of Kernville.

The second reason for rejection is that the very wet winter and spring experienced in 1982-83 resulted in such high spring and summer runoff that the water became unexpectedly turbid. Kernville claims that this turbidity would have required treatment equipment beyond that anticipated in applying for the SDWBA loan.

The third reason for Kernville's rejecting the agreement was that it could not have had any downtime for plant maintenance because the wells would have been equipped with pumps to pump directly into the river, and equipping them so that they were connected to the treatment plant in a manner that would bypass treatment during downtime would cost money not allotted by the SDWBA loan.

For these reasons Kernville concluded that treating and mixing well water would be less costly than building a facility to treat Kern River water. Both staff and the DHS have agreed with Kernville's assessment of this situation. Therefore, we consider Kernville's action regarding Item g of Ordering Paragraph 3 to be sufficient to show that, for the present at least, obtaining rights to Kern River water is not feasible. Thus, Item g has been accomplished.

Item h

Item h requires Kernville to submit to staff, by October 7, 1982, a procedure for assuring customer notification prior to line flushing or any service discontinuance other than unanticipated emergencies.

Kernville submitted a timely response to this requirement. The response was in the form of a policy memorandum setting forth procedures to be followed to assure proper customer notification. The policy adequately addresses the underlying problem and meets the requirement of Item h.

Item b

Item b requires Kernville to proceed immediately with the drilling of three test wells and to complete the work within the year. It permits cessation of drilling if sources capable of producing 200 additional gallons per minute (gpm) are developed. Ordering Paragraph 3 only requires that Kernville show that it has commenced this drilling by October 7, 1983. That requirement was clearly met.

In fact, Kernville drilled four test holes and two wells, one of which produces approximately 40 gpm and the other of which produces approximately 80 gpm. In addition, at the suggestion of the DHS, Kernville investigated two wells which had recently been drilled by others in the area. One was drilled for a bank and the other for a savings and loan association, but neither was being used because of mineral concentrations, although they were capable of producing 80 and 60 gpm, respectively. Since all Kernville's water is to be treated and blended, the mineral concentrations would not remain a problem. Kernville was able to purchase the 60-gpm well, but not the 80. Thus, it has reached 180-gpm additional supply source. Additionally, Kernville has received a permit enabling it to drill another well (No. 13) near the treatment plant. Kernville estimates it will be completed by July. Staff states that late September 1984 is a more realistic estimate, and adds that the well is in a location which is very likely to produce useable water. Thus, it is likely that 200 gpm additional source will be attained by fall, 1984.

Commitment for Funds

As we already mentioned above, Kernville has been granted a SDWBA loan of \$400,000 for making the other improvements, all of which were to have been completed by July 7, 1983. These were as follows:

Item c requires Kernville to erect and connect its new 300,000-gallon storage tank. That was accomplished in April 1984.

Item d requires installation of a centralized iron and manganese removal treatment facility connected to all wells and capable of reducing these minerals to statutorily acceptable levels. In the alternative, this item requires the demonstration of contractual authority to exchange Kern River water for water from Kernville's wells. Kernville has selected the treatment facility for reasons explained under Item g above, but no work was commenced until Kernville received a letter from the DHS in December 1983 that agreed to Kernville's treatment of groundwater rather than the exchange of Kern River water which the DHS had preferred. Kernville expects the treatment plant to be completed by July 1984. Staff has inspected the site and believes that late September 1984 is a more reasonable estimate.

Item e requires that water from Well 2 be blended with water from other sources in a manner that assures that permissible levels of fluoride are not exceeded. Kernville claims that this item was being complied with even before the rate proceeding. Staff agrees that the requirement is being met.

Finally, Item f requires disinfection of each water source sufficient to meet statutory limits on bacterial contamination. Kernville states that it chlorinates the water from all wells but Well 7 before discharging the water into the system. Water from Well 7 is not chlorinated because of its iron content. Staff states that if water with high iron content is chlorinated, the iron precipitates out and the brown precipitate is pumped into the system discoloring water, clothing, plumbing fixtures, etc. We agree that it is reasonable not to chlorinate water from Well 7.

Although many of these latter items have not been completed according to the timetable of D.82-07-019, we believe all are being completed expeditiously as required by Ordering Paragraph 3. While the order contemplated total completion by July 7, 1983, it must be remembered that after the order was issued it was necessary for Kernville to come before us again for an order granting it the right to apply for an SDWBA loan and that necessitated a further hearing in the community. Thus, the authority to enter into the loan contract was not issued until June 29, 1983 in D.83-06-094, and the loan was not available to Kernville until after that contract was signed. As a result, we conclude that Kernville has substantially complied with the requirements set forth in D.82-07-019 and is entitled to raise its rates to achieve the remaining 2.5% rate of return which we withheld in D.82-07-019. The revised adopted summary of earnings is shown on Table 1, below. The income tax calculation reflecting these newly adopted rates is shown on Table 2.

TABLE 1

KERNVILLE DOMESTIC WATER COMPANY  
(A Subsidiary of Dominguez Water Corporation)

Summary of Earnings  
Estimated Results of Operations  
Test Year 1982

Item	Adopted <sup>a/</sup>	Authorized Rates
Operating Revenues	\$116,900	\$128,220
Deductions:		
Purchased Power	19,248	19,248
Payroll	15,500	15,500
Other Operation & Maint. Expenses	25,400	25,498
Administration and General Exp.	20,333	20,333
Subtotal	80,481	80,579
Depreciation Expense	8,328	8,328
Taxes Other Than on Income	4,067	4,067
Balancing Account Adjustment	1,738	1,738
Income Taxes	6,658	13,293
Total Deductions	101,272	108,005
Net Operating Revenue	15,628	20,215
Depreciated Rate Base	183,860	183,860
Rate of Return	8.5%	11.0%

s/ By Interim D.82-07-019.



TABLE 2

## KERNVILLE DOMESTIC WATER COMPANY

## Adopted Tax Calculation

Income Tax Calculation on Consolidated Basis  
at Authorized Rates for the Test Year 1982

Item	Test Year 1982	
	CCFT	FIT
Operating Revenue	\$128,220	\$128,220
Expenses:		
Operation & Maintenance	60,246	60,246
Administration & General	20,333	20,333
Taxes Other Than Income	4,067	4,067
CCFT	-	2,539
Subtotal	84,646	87,185
Deductions from Taxable Income:		
Tax Depreciation	8,328	8,328
Interest Expense	8,800	8,800
Subtotal	101,774	104,313
Net Taxable Income (CCFT)	26,446	
CCFT @ 9.6%	2,539	
Net Taxable Income (FIT)		23,907
FIT @ 46%		10,998
Graduated Tax Adjustment		(244)
Total FIT		10,754
Total CCFT and FIT	13,293	

(Red Figure)

In reviewing D.82-07-019 we have discovered that the percentage and dollar figures in the second, third, and fourth paragraphs of page 9 are the results of miscalculation. However, these errors in no way affect the findings of fact, conclusions of law, or interim order since those portions of the decision relied upon accurately calculated figures. This final order likewise relies upon those properly derived figures.

Additionally, Kernville requests that its "Schedule No. 2, Flat Rate Service", be canceled since it no longer has, and does not expect to have, any flat rate customers. We believe such cancellation is appropriate.

Finding of Fact

Kernville has complied with Ordering Paragraphs 2 and 3 of D.82-07-019.

Conclusions of Law

1. Kernville is entitled to a rate increase to produce an additional 2.5% rate of return.
2. There is no longer a need for Kernville to have a tariff for flat rate service.
3. Because Kernville is entitled to an increase this order should be effective immediately.

FINAL ORDER

IT IS ORDERED that:

1. Kernville Domestic Water Company's (Kernville) Schedule No. 2, Flat Rate Service, is canceled.

2. Kernville is authorized to file, effective today, the revised rate schedules in Appendix A. The filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated JUL 5 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

VICTOR CALVO

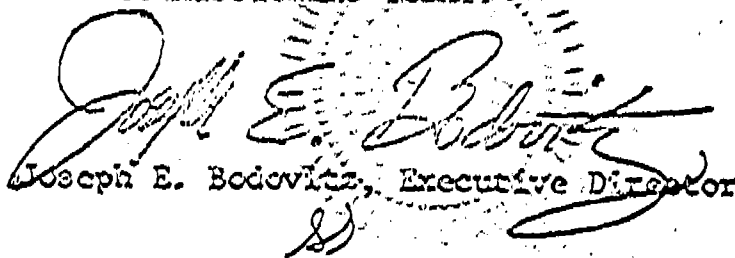
PRISCILLA C. CREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director

## APPENDIX A

## Schedule 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Kernville and vicinity, Kern County.

RATES

Quantity Rates: <sup>a/</sup>		Per Meter Per Month	
First 300 cu.ft., per 100 cu.ft. ....		\$ 0.943	(I)
Over 300 cu.ft., per 100 cu.ft. ....		1.219	(I)
Service Charge:	Per Meter Per Month Charge	Per Meter Per Month Surcharge	
For 5/8 x 3/4-inch meter.....	\$ 6.50	\$ 6.65	
For 3/4-inch meter.....	7.15	10.00	
For 1-inch meter.....	9.75	16.70	
For 1 1/2-inch meter.....	13.00	33.25	
For 2-inch meter.....	17.55	53.20	
For 3-inch meter.....	32.50	99.75	
For 4-inch meter.....	44.20	166.25	

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan as authorized by Decision 83-06-094.

<sup>a/</sup> These rates include amortization factor of \$0.022 per Ccf for purchased power to amortize undercollections of \$3,475 over 24 months.

(END OF APPENDIX A)