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Decision 84 08 018 AUG 1 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of Antelope Valley Water Company for a general rate increase in its Lancaster District.	Application 83-10-28 (Filed October 19, 1983)

C. W. Porter, for applicant.
Phillip M. Schwabacher, Attorney at Law, for water customers, protestant.
Albert A. Arellano, Jr., for the Commission staff.

OPINION

Summary

Applicant Antelope Valley Water Company requested an increase in water rates for the 272 customers served in its Lancaster District (LD). Applicant proposed an increase of $50,050 (55.8%) designed to yield an 11.5% rate of return on its estimated rate base of $342,450. The Commission staff (staff) proposed certain adjustments discussed later in this decision which were stipulated to by applicant. When prepared, the staff estimates at present rates were reasonable. However, after receipt of late-filed exhibits in this proceeding, we authorized applicant's electrical supplier, Southern California Edison Company (SCE), to increase its rates. It would be reasonable to give recognition to the increase in applicant's purchased power expenses. Therefore, we will adopt the staff estimates at present rates modified to reflect the increase in applicant's purchased power expense and the reduction in income

taxes caused by the change in SCE's rates. In this decision we will authorize an increase in rates designed to permit applicant to earn an 11.5% rate of return on its LD rate base of $333,500. Revenues at authorized LD rates will be $44,310 (49.4%) higher than revenues at present rates.

Applicant states that approximately 80% of its requested increase is designed to enable it to obtain an 11.5% rate of return on its major new investments in LD utility plant. Applicant's customers believe that there could be a doubling of customers within the LD due to the building of homes within a new subdivision located within the LD service area. Applicant believes its initial investment in this subdivision would be minimal since it would not require additional investment in water supply or storage facilities and the developer would advance or contribute the cost of needed mains, services, and fire hydrants. If the new development materializes, there could be a sharp reduction in applicant's present investment of $1,226 per customer, which in turn could reduce its revenue requirement per customer. Applicant's LD customers should benefit from such a reduction in applicant's revenue requirement. Therefore, we will require applicant to file a 12-month recorded and pro forma summary of earnings estimate within 60 days after each increment of 50 customers is served in the new subdivision. To the extent that the pro forma estimate indicates a rate of return in excess of 11.5% on rate base, applicant should file a request for a rate reduction to bring the rate of return to 11.5%. Such reduced rates should reflect approximately equal percentage reductions of service charges and quantity rates. These requirements should terminate on the date applicant files its next LD general rate increase. We have adopted a three-year minimum cycle for such general rate increases.

Background

Applicant operates water systems in nine noncontiguous districts including the water system of its subsidiary, Kernville Domestic Water Company. Applicant reimburses its parent, Dominguez Water Corporation (Dominguez), for management, engineering, and billing services. Three servicemen operate and perform routine maintenance and repairs on the nine systems.

Applicant originally followed a simplified (advice letter) procedure for requesting this increase. Under this procedure applicant notified its LD customers of its rate proposal. The notice advised these customers to mail their comments on the proposed increase to the staff. In response to the notice, 203 (76%) of the affected customers signed protest letters and petitions. In order to provide for requested hearings in this matter, the Commission docketed the advice letter as an application.

Hearing

After notice a hearing was held before Administrative Law Judge Levander in Los Angeles on February 7, 1984. The matter was submitted subject to receipt of late-filed exhibits, which have been received.

Applicant's testimony was presented by the vice president of finance for Dominguez and for applicant, and by Dominguez's operations manager. A staff engineer testified on his results of operations study. Absent objection, Exhibit 4, a memorandum prepared by a staff financial examiner, was received in evidence.

Four customers testified or stated that the proposed increase following a 57.7% increase in 1980[1/] is unwarranted; applicant's service practices and water quality are deficient; the proposed rate of increase was far greater than the rate of inflation; customers on fixed incomes could not afford the increases; and applicant's LD rates are much higher than the rates of nearby water districts and mutual water companies.

Results of Operations

The tabulation on the next page shows 1983 results of operations estimates of applicant and staff at present and proposed rates and the adopted amounts at present and at authorized rates. We will discuss major elements establishing the basis for the increase below. However, as noted above, we will adopt the staff estimates at present rates modified to reflect an increase in purchased power expense and a reduction in income taxes. At authorized rates, there will be increases in uncollectible expenses and in income taxes due to the higher revenue levels.

1/ That increase was authorized by Resolution W-2717 dated October 8, 1980.

Estimated Year 1983

Item	Applicant: Present Rates	Applicant: Proposed Rates	Staff: Present Rates	Staff: Proposed Rates	Adopted: Present Rates	Adopted: Authorized Rates
Operating Revenue	$ 89,700	$139,750	$ 89,700	$139,750	$ 89,700	$134,010
Operating Expenses						
Oper. & Maint. Exp.	36,450	36,450	34,240	34,240	35,000	35,000
Admin. & Gen. Exp.	23,250	23,794	22,100	22,650	22,100	22,580
Depreciation	12,333	12,333	10,510	10,510	10,510	10,510
Taxes Other Than Income	4,673	4,673	4,670	4,670	4,670	4,670
Income Taxes	(2,239)	23,100	870	26,200	480	22,910
Subtotal	74,467	100,350	72,390	98,270	72,760	95,670
Net Operating Revenue	15,233	39,400	17,310	41,480	16,940	38,340
Rate Base	342,450	342,450	333,500	333,500	333,500	333,500
Rate of Return	4.4%	11.5%	5.2%	12.4%	5.1 %	11.5 %
Avg. No. of Customers	272	272	272	272	272(a)	272(a)

(Red Figure)

(a) If significant numbers of customers are added to above existing numbers, rate reductions may be required.

Operating Revenue

There is no difference between the revenue estimates of applicant and staff. The revenue estimates are based on number of customers, rates, and a linear regression analysis to develop an average use per customer. We adopt applicant's revenue estimate of $89,700 at present rates, an average use per customer of 459.9 hundred cubic feet (Ccf) per year or approximately 38.3 Ccf per month. There are no large public authority or commercial customers served from the LD system. Average use per LD customer is higher than in any of the districts served by applicant. Irrigation water drains rapidly through the sandy soil in the LD.

Purchased Power

Staff reduced applicant's estimate of pumping energy consumption from 328,700 kilowatt-hours (kWh) to 304,095 kWh based on the efficiency levels of applicant's new pumps measured by recent pump tests. Applicant's purchased power estimate of $26,380 used SCE's January 1, 1983 tariff rates under Schedule PA-1. The staff estimate of $24,290 used SCE rates in effect as of December 20, 1983. The adopted amount of $25,050 is based on SCE's Schedule PA-1 rates as of April 1, 1984.

Payroll Expense and Management Fee

Applicant employs three field men to operate and maintain its nine systems and to read meters. LD customers contact these employees by calling an answering service which maintains two-way radio contact with the employees. Applicant uses local contractors for major repairs. Billing, central office, engineering, and management expenses are allocated to Dominguez and to the nine districts of its subsidiaries using a three-factor method approved by the Commission. Staff reviewed applicant's $9,350 allocation of payroll expense and $4,100 management fee allocation to its LD. The staff witness testified that these allocations are reasonable; the allocations average $4.12 per customer per month.

Transportation Expense

The staff LD transportation expense estimate of $4,050 is $1,150 lower than applicant's $5,200 estimate. Applicant's estimate updates expenses incurred prior to 1983. The staff reduction was designed to eliminate above-average transportation expenses resulting from construction activities and plant additions in the LD service area in 1981 and 1982. Applicant also was required to purchase water in 1982 to maintain service due to the collapse of its storage tank. The adopted staff estimate is based on increasing applicant's 1980 transportation expenses through use of a nonlabor inflation index.

Utility Plant

The adopted staff estimate of $410,710 for utility plant in service is based on an average of beginning and end-of-year plant in service and reflects a $2,475 plant retirement based on later data than that used by applicant. The utility plant and reserve for depreciation estimates used by applicant were based on end-of-year amounts.

Depreciation Reserve, Depreciation Accrual, and Depreciation Expense

The adopted staff reserve for depreciation estimates is $66,995 based on the average reserve for depreciation for the test year; reflects the $2,475 plant retirement, based on the Commission's mandated straight-line remaining life method; and reflects a $10,510 depreciation expense accrual for 1983. Staff used a lower composite depreciation rate than applicant.

Saturation Adjustment

In Decision (D.) 76388 in Application (A.) 50234 dated November 4, 1969, the Commission adopted certain staff recommendations including the use of saturation adjustments to reduce several of applicant's district rate bases by depreciated amounts of utility investments in underutilized water distribution systems. The LD adjustment was $9,827. Staff states:

> "Since the customer growth has kept pace with plant additions, and the service area is not yet 85% developed, the Branch feels that the figure of $9,830 used for the 1968 test year is reasonable for test year 1983."

Applicant used a saturation adjustment of $2,972, the unamortized portion of the $9,830 adjustment. Staff stated that its adjustment is consistent with past Commission decisions. Since applicant stipulated to the staff adjustment without explanation of the basis of its amortization, we will adopt the uncontested $9,830 adjustment.

Other Rate Base Adjustments

The adopted staff estimates of working cash ($6,950), contributions in aid of construction ($3,050), and advances for construction ($2,100) are $2,510, $55, and $101, respectively, less than applicant's estimates. The LD rate base is reduced by deferred income taxes based on normalization of Accelerated Tax Recovery System tax depreciation and by the unamortized Investment Tax Credits. These adjustments are mandated by federal law.

Rate Base

The adopted staff rate base estimate of $333,500, derived in the tabulation on page 4 of Appendix B, is adopted.

Rate of Return

Applicant requested a rate of return equal to the 11.50% the Commission found reasonable for its China Lake, Freemont Valley, and Willow Springs districts by Resolution W-3095 dated May 31, 1983, and for its Lake Hughes District authorized by Resolution W-3145 dated December 5, 1983. The requested 11.50% rate of return is the rate of return authorized for its parent, Dominguez, in 1981. Since 1981 Dominguez's debt cost has increased and its capital structure has changed resulting in a Dominguez request for a higher rate of return.[2/]

Staff considered the parent-subsidiary relationship between Dominguez and applicant and used Dominguez's capital structure and costs to determine a reasonable rate of return for applicant's LD and North Edwards districts. In Exhibit 4, staff states:

> "In developing the 1983 capital structure, we started with Dominguez's recorded capitalization at December 31, 1982 comprised of approximately 52% debt, 5% preferred stock, and 43% common equity. Then we recognized the changes in the capital components projected for 1983 using the assumptions made by the staff in Dominguez's pending general rate case (A.83-07-01 dated October 1983). The following tabulation presents Dominguez's average 1983 capital structure and embedded costs at the applicant's requested rate of return of 11.50%.

	Capital Ratio	Cost	Weighted Cost
Long-Term Debt	51.15%	10.55%	5.40%
Preferred Stock	4.80	5.00	.24
Common Equity	44.05	13.30	5.86
Total	100.00%		11.50%

2/ D.84-03-55 dated March 21, 1984 in A.83-07-01 adopted a 14.50% return on equity for Dominguez designed to yield overall rates of return of 12.15% for 1984, 12.16% for 1985, and 12.35% for 1986.

> "Based on our analysis of the foregoing capital structure and capital costs, we believe that the 13.30% return on Dominguez's investment in Antelope is not unreasonable and compares to the 14.0%-14.5% equity return the staff has recommended for Dominguez's investors in A.83-07-01. The Revenue Requirements Division, therefore, recommends that the 11.50% rate of return be used in setting rates for Antelope's Lancaster and North Edwards Districts."

Applicant's approach in basing its rate of return on the then authorized rate of return for its far larger sized parent is reasonable. Applicant was able to use Dominguez's financial resources to fund major LD improvements in 1981 and 1982. The 11.5% rate of return requested by applicant for its LD is not unreasonable and is adopted.

Plant Improvements, Water
<u>Supply, and Service Pressures</u>

In 1980 customers in the southern portion of the LD system complained of low water pressures. On July 25, 1980 applicant measured pressures of 25 pounds per square inch (psi), 36 psi, and 44 psi in the southwestern portion of its LD system. At that time, production from two wells, each equipped with a 50-horsepower (hp) motor, was discharged into a 68,250-gallon ground storage tank and/or the intake line for two 15-hp booster pumps. A 40-hp booster pump was connected to the storage tank. The 40-hp booster pump or the two 15-hp booster pumps discharged into a 10,500-gallon hydropneumatic tank (see Attachment A of Late-Filed Exhibit 5). The interconnections between the hydropneumatic tank and the southwestern portion of the system was through 6-inch asbestos cement mains and 2-inch galvanized steel mains. In 1981, applicant spent $94,000 to improve service by installing an 8-inch distribution and supply main from the hydropneumatic tank to the southern portion of its system in 21st Street, 6-inch mains in 22nd Street, and replaced services, meters, and fire hydrants which had been connected to mains taken out of service.

In July 1980 the 40-hp booster pump was set to deliver pressures ranging from 65 psi to 80 psi at the hydropneumatic tank. As a result of the main replacement, pressures in the southwestern portion of the service area increased from a submarginal range of 25 to 40 psi to a permissible range of 40 to 50 psi.

In December 1981 the 68,250-gallon storage tank ruptured and applicant was required to purchase water from Los Angeles County Waterworks District No. 4 to maintain service. It replaced the ruptured tank with a 144,000-gallon tank at a cost of $38,782. In addition, applicant eliminated the connection between its wells and the booster supply line, upgraded its booster pump capability at a cost of $33,700, and increased pressures at the hydropneumatic tank to a range of 88 to 100 psi. Applicant now has the capability of simultaneously operating a 100-hp booster pump with an output rate of 1,500 gpm and a 40-hp booster pump with an output rate of 800 gpm. These improvements further increased pressures throughout the system up to 20 to 23 psi and increased the system fire flow capability to meet a 1,250 gpm requirement.

The highest pressures in the system are in the Somerset Tract,[3/] the northernmost tract served by applicant. A customer in that tract complained that, without notice,

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3/ The new subdivision discussed on page 2 of this decision is located north of the Somerset Tract. It is planned for 170 single-family homes and 100 condominium units.

applicant increased pressures from 55 to 110 psi. Applicant estimates the maximum pressure is 112 psi at the customer's residence. That pressure is below the normal upper limit of 125 psi permitted under the Commission's General Order 103. But applicant contends that the pressure increase within the Somerset tract would have been equal to the 20 to 23 psi increase in the pressure settings at its hydropneumatic tank, not to the 55 psi increase alleged.

Since the mains in the Somerset Tract are adequately sized, applicant's assessment is reasonable. But applicant should have given customer notice of that significant scheduled change of pressures.

Other Service Complaints

Applicant's customers also stated that the water is murky, has undesirable chlorine tastes and odors, is hard, and contains sand. Applicant's response is that the hardness in the water ranges from 200 to 220 parts per million; its operations are subject to health department requirements, including maintenance of a chlorine residual throughout its system; and it is unaware of a sand problem in this system.

Deposits of calcium carbonate from the water may resemble sand. Some taste and odor problems might be resolved through periodic flushing of dead-end mains, or alteration of applicant's chlorination procedures. Applicant should report on the feasibility of improving water quality in the LD through such operational changes.

LD customers also complained that applicant took excessive amounts of time to respond to service complaints. Late-Filed Exhibit 6 contains copies of customer call slips made by applicant's answering service for the months of November and December 1983, and January 1984, and applicant's responses to the service calls. Most of the calls relate to billings, e.g. requests for payment extensions, high bills, and changes in service status. Seven service-related problems were reported in the three months, including problems on customer-owned facilities; four problems were resolved on the day of the call, one was resolved the day after the call; a fire hydrant leak was repaired six days after the call; and a minor service leak at a valve on applicant's side of a meter required replacement of an out-of-stock valve and meter which took place 10 days after the call.

Applicant testified that it attempts to promptly resolve service complaints, but it must set priorities in making repairs. Consequently it will defer action on minor repairs or replacements if its servicemen are needed to work in other districts. The staff investigation shows that LD service is generally satisfactory.

The service procedures followed by applicant appear to be reasonable. Deferral of minor repairs avoids the expenses of applicant's employment of additional personnel, which would be reflected in rates.

Impact of Major Improvements

The work papers accompanying applicant's advice letter filing shows recorded LD utility plant of $214,634 as of December 31, 1980. LD's utility plant increased to $417,221 as of December 31, 1983. The adopted average year 1983 plant of $410,710 is used for ratemaking purposes in this decision. The bulk of the adopted increase provides an after-tax return on applicant's post-1980 investment in plant improvements.

On November 30, 1983 the Commission notified water utilities under its jurisdiction to provide public notice to their customers and to the Commission concerning proposed plant additions which would result in large rate increases[4/] (excluding expenditures to rectify emergency repairs or conditions). Such notice is intended to afford the public with an opportunity to comment on going forward with proposed construction or on alternatives to the utilities' proposal, including a trade-off of retaining poor quality (but not unsafe) service rather than pay for the proposed improvements through increases in rates.

Had the notice requirement been in effect in 1980, the LD customers would have been afforded an opportunity to request a trade-off of poor service for lower rates with respect to some of the improvements installed, e.g. the main, service, fire hydrant, and meter replacements. But we cannot retroactively penalize applicant by not allowing applicant to earn a reasonable rate of return on its expenditures for needed system improvements. Should applicant seek to make major improvements (e.g. treat its

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4/ This notice is reproduced as Attachment A to this decision.

water to improve water quality) or for further main replacements, it could be subject to these notice requirements. The LD customers should realize that deferral or elimination of needed replacements may not be without penalty. Had applicant not replaced facilities, its maintenance expenses could have increased to avoid further deterioration of its existing poor service conditions.

Rates

Tabulated below are applicant's present and proposed rates, and the rates authorized in this decision:

	Per Meter Per Month		
	Present Rates	Proposed Rates	Authorized Rates
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.	$ 0.37	$ 0.57	$ 0.57
Over 300 cu.ft., per 100 cu.ft.	0.54	0.734	0.734
Service Charge:			
For 5/8 x 3/4-inch meter	$ 4.37	$ 6.80	$ 6.45
For 3/4-inch meter	5.47	8.50	8.50
For 1-inch meter	8.21	18.00	15.30
For 1½-inch meter	13.14	30.00	24.00

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used during the month at Quantity Rates.

Staff concludes that applicant's rate proposal maintains the lifeline differential in compliance with the policy we established. This conclusion is based on a comparison of present and proposed LD rates with the rates in effect on January 1, 1976. This comparison is tabulated below.

	At Present Rates	At Applicant's Requested Rates (1983)
Total Cumulative Increases	89.6%	195.4%
Lifeline Increase	52.1%	136.0%
To Maintain a 25% Differential, the Lifeline Rate Should Have Increased	51.6%	136.0%

Our rates structure policy requires use of service charges, establishment of a lifeline allowance of 300 cubic feet per month, and a second block inverted rate not more than 50% higher than the first block. At present rates applicant is receiving 26.3% of the total revenues from service charges.

A comparison of monthly customer bills for general metered service at applicant's present and proposed rates and at authorized rates for a 5/8 x 3/4-inch meter is shown below:

Usage in Ccf	Bills at Present Rates	Bills at Proposed Rates	At Authorized Rates		
				Increase	
			Amount	Amount	Percent
0	$ 4.37	$ 6.80	$ 6.45	$ 2.08	47.6%
3	5.48	8.51	8.16	2.68	48.9
5	6.56	9.98	9.63	3.09	46.8
10	9.26	13.65	13.30	4.04	43.6
15	11.96	17.32	16.97	5.01	41.9
30	20.06	28.33	27.98	7.92	39.5
38 (average use)	24.38	34.20	33.85	9.47	38.8
50	30.86	43.01	42.66	11.80	38.2
100	57.86	79.71	79.36	21.50	37.2

Over 70% of applicant's customers are served through one-inch meters. Tabulated below is a comparison of monthly bills for customers served through one-inch meters at present, proposed, and authorized rates.

Usage in Ccf	Bills at Present Rates	Bills at Proposed Rates	At Authorized Rates		
				Increase	
			Amount	Amount	Percent
0	$ 8.21	$18.00	$15.30	$ 7.09	86.4
3	9.32	19.71	17.01	7.69	82.6
5	10.40	21.18	18.48	8.08	77.7
10	13.10	24.85	22.15	9.05	69.1
15	15.80	28.52	25.82	10.02	63.4
30	23.90	39.53	36.83	12.93	54.1
38	28.22	45.85	42.70	14.48	51.3
50	34.70	54.66	51.51	16.81	48.4
100	61.70	90.91	88.21	26.51	43.0

Applicant's customers protested against variations in meter charges and against excessive charges for larger sized meters.

Variations in service charges reflect meter costs and potential demands on the system for meters with different flow capacities. However, customers' objections to disproportionate service charge increases for 1-inch and 1½-inch meters are valid. In order to yield the adopted revenue requirement, we will modify applicant's rate proposal by reducing most of the proposed service charges. Adopted service charges for larger meters are $15.30 for a 1-inch meter and $24 for a 1½-inch meter bear a more reasonable relationship to the $6.45 service charge for 5/8 x 3/4-inch meters than the relationships proposed by applicant.

The rates authorized in this decision are designed to afford applicant the opportunity to recover its expenses and to earn a reasonable rate of return on its investment.

We do not have information to evaluate the reasonableness of the rates, charges, assessments, or taxes used to support operations of the mutual water companies or of water districts, mentioned by LD customers.

Findings of Fact

1. Applicant uses three employees to operate and maintain the nine districts of applicant and its subsidiary. These employees are in contact with a telephone answering service to relay customer inquiries. Applicant's parent, Dominguez, provides billing, financial, engineering, and administrative services to applicant. This method of operating provides adequate service coverage to the LD at reasonable cost.

2. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return shown on the tabulation on page 5 of this decision are reasonable.

3. The requested 11½% rate of return is based on estimated 1983 composite capital cost for Dominguez. Applicant relies on Dominguez's ability to obtain funds to meet applicant's financial requirements. In D.84-03-55 the Commission adopted rates of return for Dominguez of 12.15% for 1984, 12.16% for 1985, and 12.35% for 1986. Applicant's request for an 11½% rate of return on the adopted rate base is not unreasonable and is adopted.

4. Most of the authorized rate increase is designed to allow applicant to earn a rate of return on the major expenditures for system improvements constructed in the LD system. The average LD rate base per customer is $1,226.

5. A 270-unit residential subdivision located north of the "Somerset Tract" and within applicant's service area is being processed. Applicant's initial expenditures to serve this tract would be minimal. If the new development materializes, there could be a sharp reduction in applicant's 1983 investment per customer, which in turn would reduce applicant's revenue requirement per customer.

6. Applicant should investigate the feasibility of improving water quality in the LD through operational changes involving flushing of dead-end mains and/or modification of its chlorination procedures.

7. The increases in rates and charges authorized in Appendix A are just and reasonable; and the present rates and charges, insofar as they differ from those prescribed, are for the future unjust and unreasonable.

8. The adopted quantities and the adopted tax calculation used to develop the Summary of Earnings on page 5 of this decision are shown in Appendix B.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. Applicant's LD customers should benefit from a reduction in applicant's revenue requirement per customer flowing from large scale development of a 270-unit subdivision. If the development materializes, applicant should be required to make rate reduction advice letter filings described on pages 2 and 3 of this decision.

3. Applicant should be required to file a report on the feasibility of improving water quality through operational changes involving flushing of dead-end mains and/or modification of its chlorination procedures.

4. Because of the immediate need for rate relief the following order should be effective today.

<u>O R D E R</u>

IT IS ORDERED that:

1. Antelope Valley Water Company shall:

   a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 4 days after filing.

   b. File the report in conformity with Finding 6 within 90 days after the effective date of this order.

   c. File rate of return and possible rate reduction filings in conformity with Conclusion 2 within 60 days after each increment of 50 customers is served in the 270-unit subdivision described above.

2. The application is granted as set forth above.
The effective date of the order is today.
Dated at AUG 1 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
DONALD VIAL
Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate

Commissioner William T. Bagley being necessarily absent, did not participate.

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

Joseph E. Bodovitz, Executive Director

ADDRESS ALL COMMUNICATIONS TO THE COMMISSION
CALIFORNIA STATE BUILDING
SAN FRANCISCO, CALIFORNIA 94102
TELEPHONE (415) 557-1863

Public Utilities Commission

STATE OF CALIFORNIA

FILE NO.

November 30, 1983

ATTACHMENT A

TO: CLASSES A, B, C AND D WATER UTILITIES

The Commission, on June 15, 1983, adopted a service improvement policy (copy attached) which requires water companies to provide public notice of proposed plant additions that will result in large rate increases. If the total proposed improvements for a year will increase rate base (as shown in the last Annual Report or more recent rate decision) by more than 10 percent for Classes A and B companies or 25 percent for Classes C and D companies, you should send a notice of the proposed improvements both to your ratepayers and to us. (This notice requirement does not apply to emergency repairs or conditions such as system failure, water outage, or sudden contamination.) If the Hydraulic Branch processes your rate increase filings, the notice should be sent there; otherwise, the notice should be sent to the Revenue Requirements Division. The notice should accompany a normal billing or be sent by separate mailing. It should identify the intended system improvements, the problems they will help solve, the estimated total cost, the probable effect on rates, and the likely effect on service if the improvements are not made. Alternatives to the improvements should also be identified and described with some explanation for the choice of plan. The notice should ask the ratepayers to write to you within 20 days if they wish to comment on the proposal. Please send any comments you receive to the staff; if no comments are received, the Commission wants to know this as well.

Under the Commission's policy, you may not proceed with the improvements for 20 days after mailing the customer notices to the staff (for a total of 40 days after the notification date), allowing us time to determine that the proposed improvements represent the appropriate means to solve the problem and also to review any customer comments. If there is substantial customer concern, we will ask you to schedule a meeting in or near the service area so that you can further explain the need for the improvements, etc. We will ask you to arrange the meeting place and notify customers of the meeting. Our staff will attend.

If the customer consensus is a desire to retain poor quality (but not unsafe) service rather than pay for improvements, the Commission may decide not to allow the proposed improvements in rate base. How this policy would be applied would be determined by the facts of each individual case. In any such case, you should file a formal application seeking Commission authorization for the disputed improvements.

We are not discouraging utility plant investment; on the contrary, we recognize that such investment is essential to provide good ratepayer service. But the high cost of making improvements, combined with record inflation in the recent past, has resulted in very high bills in some areas of the state. For this reason, the Commission believes it is only fair to both ratepayers and the utility companies for consensus to be reached on proposed projects before the investment is made.

If you have any questions about this policy, please contact Ernst G. Knolle at (415) 557-1903.

Very truly yours,

Wesley Franklin

WESLEY FRANKLIN, Chief
Hydraulic Branch

Attachment

SERVICE IMPROVEMENT POLICY

A. CUSTOMER NOTICE OF CAPITAL IMPROVEMENTS BETWEEN RATE CASES

(These rules apply to capital improvements, not maintenance.)

I. WHEN REQUIRED

a. Class A & B

If the total improvements for the year will increase rate base (as shown in the last Annual Report or more recent rate decision) by more than 10%, there must be notice to the customers and the Staff.

b. Class C & D

If the total improvements for the year will increase rate base (as shown in the last Annual Report or more recent rate decision) by more than 25% there must be notice to the customers and the Staff.

c. Exceptions

This notice requirement shall not apply to emergency repairs or other conditions, such as system failure, water outage, or sudden contamination.

II. MANNER OF THE NOTICE

1. The notice could accompany the normal billing or be a separate mailing. It must be sent to the same address and person responsible for payment of the water bill. A copy of the notice must also be sent to staff at the same time.

III. CONTENTS OF THE NOTICE

a. The notice must identify the intended system improvements, the problems they will help solve, the estimated total cost, the effect on customer rates (increase of _____%). and likely result if improvements are not made.

b. The notice must ask the ratepayers to write to the utility within 20 days if they wish to comment on the proposal. Any comments must be sent to staff by the utility. If no comments are received the utility must notify staff of this fact.

IV. STAFF ANALYSIS

Staff will determine that the proposed improvements represent the appropriate means to solve the problem addressed, or if there is a less costly alternative which would meet the appropriate level of service.

IV. STAFF ANALYSIS

Staff will determine that the proposed improvements represent the appropriate means to solve the problem addressed, or if there is a less costly alternative which would meet the appropriate level of service.

V. CUSTOMER COMMENTS

The utility shall not proceed with the improvements for 20 days after mailing the customer's reaction to the Staff. This will permit Staff review of customer's comments. If there is substantial customer resistance Staff will schedule a public meeting in or near the utility service area so that the utility can further explain the need for the improvements. Staff will present any alternatives to provide the appropriate level of service. The utility shall be responsible for arranging for the meeting place and notification of the meeting to all customers.

VI. CUSTOMER REJECTION

If the concensus of customer reaction is a desire to retain poor quality (but not unsafe) service rather than pay for improvements, the utility is on notice that the proposed improvements may not be permitted into ratebase. In this instance a formal application should be filed seeking Commission authorization for the disputed improvements.

B. DEVELOPMENT OF UTILITY OBLIGATIONS TO CORRECT SERVICE PROBLEMS IDENTIFIED DURING GENERAL RATE CASE ADVICE LETTER & APPLICATION PROCEEDINGS

I. ADVICE LETTER

a. The service improvement need is identified by utility or staff.

b. The proposal for corrections (utility's and/or staff's) is reviewed in terms of:

1. Alternative solutions
2. Cost
3. Financing possibilities
4. Impact on rates
5. Schedule for making improvements

c. Staff sends a letter of confirmation to the utility which includes:

1. A description of staff recommendations for improvements including a proposed schedule for completion.

2. A statement of Commission compliance policy, including potential penalties for non-compliance and the utility obligation to meet requirements accepted by the filing of tariffs.

3. A statement of the utility right to request a hearing if it cannot meet construction deadline. This letter request is to be filed for staff consideration six weeks before the final construction deadline. If hearing is granted the reasonableness of ordered improvements shall not be at issue and the burden would be on the utility to convince the Commission that the increased rates should not be cancelled.

4. A request for the utility's acknowledgement of staff's recommendations and Commission policy.

d. Upon receipt of the response from the utility staff determines the need for a hearing (if the utility disagrees with the proposed plan or with the Commission compliance policy).

e. The customers are notified, via customer letter, of the proposed improvements (if threshold test for rate-base impact met), including a description of the problem, the proposed plan, its probable cost and impact on rates.

f. Staff analyzes the customer response to determine if a public meeting/ hearing is indicated.

II APPLICATION

a. Staff or the utility identifies service improvement need and discusses this at customer meeting if issues are well enough developed.

b. Staff reviews proposal for improvements, including:

1. Alternative
2. Cost
3. Impact on rates

c. Customers are notified by letter from the utility (if ratebase threshold test met), which provides a brief description of the source problem, the improvement plan, its probable cost & impact on rates. They are informed of their right to participate in upcoming hearing and are directed to send responses to the utility.

d. The utility notifies staff of customer reaction.

e. Staff testimony at the hearing must include recommendations regarding the improvement plan, an estimate of the cost and rate effects of the proposal, benchmark construction goals and a reporting plan. It also includes the potential penalties to be applied in the event of utility non-compliance with the Commission order. It states the utility right to request a hearing if it believes, six weeks before the final construction date, that it cannot meet the deadline. Staff must state that if a hearing is granted, the reasonableness of the service improvement order shall not be at issue and that the burden is on utility to convince Commission that increased rates should not be cancelled.

C. IMPLEMENTATION OF POLICY IN DECISIONS AND RESOLUTIONS

1. Findings of Fact

   a. Include finding of the need for and feasibility of proposed improvements or other actions.

   b. Include finding of the cost, effect on rates and the proposed construction date of the proposed plan.

2. Ordering Paragraphs

   a. Order utility to make specific improvements or take other actions to correct service problems.

   b. Specify timeframe for implementation of plan, including (if relevant) breakdown into verifiable segments to which utility must conform.

   c. State that filing of rate increase tariffs is acceptance by utility of its obligation to meet requirements.

   d. Direct utility to notify staff of completion date of each phase of project.

   e. Make all or part of the rate increase conditioned upon utility completion of ordered improvements, or other actions, on time.

      -Any part of the rate increase earmarked to finance a specific improvement project will be subject to both cancellation and refund.

      -The portion of a general rate increase providing the return on equity will be reduced to zero.

   f. In addition may authorize a reduced rate of return for a large utility having an outstanding Commission order for service improvements, to be effective until it complies.

   g. Make step rates conditioned upon compliance with the order.

   h. May authorize a ratebase offset by advice letter for specific improvement item(s) not included in adopted results.

   i. Contain an appendix showing the effective date of the reduced rates.

APPENDIX A

Schedule No. LA-1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

A portion of the community of Lancaster and vicinity, Los Angeles County.

RATES

Service Charge:

For 5/8 x 3/4-inch meter	....	$ 6.45	(I)
For 3/4-inch meter	....	8.50	|
For 1-inch meter	....	15.30	|
For 1½-inch meter	....	24.00	|
For 2-inch meter	....	30.00	(I)
For 3-inch meter	....	43.80	
For 4-inch meter	....	65.75	

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

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	....	$ 0.570	(I)
Over 300 cu.ft., per 100 cu.ft.	....	0.734	(I)

(END OF APPENDIX A)

APPENDIX B
Page 1

ADOPTED QUANTITIES

Name of Company: Antelope Valley Water Company
District: Lancaster

Net-to-Gross Multiplier:	2.07125
Federal Tax Rates:	46%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0.22%
Business License:	0.0
Uncollectible Rates:	1.1%

Offset Items	Test Year 1983
1. Purchased Power:	
Southern California Edison Co. Rates:	
Total Cost	$25,050
kWh	304,095
Eff. Sch. Date	April 1, 1984
$/kWh used	0.07289

2. Purchased Water: None

3. Pump Tax-Replenishment Tax: None

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ADOPTED QUANTITIES

Name of Company: Antelope Valley Water Company
District: Lancaster

4. Payroll and Employee Benefits:

	Test Year 1983
Operation and Maintenance	$ 9,350
Management Fee	4,100
Total	$ 13,450
Pension and Benefits	4,200

5. Ad Valorem Taxes:

Ad Valorem Taxes	$ 4,570
Tax Rate	1.414%
Assessed Value	$323,200

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ADOPTED SERVICES BY METER SERVICE
(all classes)

Meter Size	1983
5/8" x 3/4"	53
3/4"	23
1"	193
1½"	3
	272

Metered Water Sales Used to Design Rates:

	Range - Ccf	Usage - Ccf 1983
Block 1	0-3	9,734
Block 2	3	116,691
		126,425

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ADOPTED RATE BASE

Line No.	Item	Test Year 1983
1	Utility Plant	$410,710
2	Depreciation Reserve	(66,995)
3	Plus CWIP	-
4	Plus Mat. & Supplies	3,500
5	Plus Working Cash	6,950
6	Less Advances	(2,100)
7	Less Contributions	(3,050)
8	Saturation Adjustment	(9,830)
9	Depreciated Rate Base	339,185
10	Average Rate Base	339,185
11	Less Deferred Inc. Taxes	(4,960)
12	Less Deferred Investment Tax Credit	(725)
13	Rate Base	333,500

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ADOPTED TAX CALCULATIONS

Line No.	Item	1983 Adopted Rates CCFT (C)	FIT (D)
1	Operating Revenue	$134,010	$134,010
2	O&M Expenses	57,580	57,580
3	Taxes Other Than Income	4,670	4,670
4	Tax Depreciation	10,510	10,510
5	Interest	16,040	16,040
6	CCFT	-	4,340
7	Sub-total Deductions	88,800	93,140
8	State Taxable Revenue	45,210	-
	CCFT @ 9.6% ($200 min.)	4,340	-
9	Federal Taxable Revenue	-	40,870
	Federal Income Tax @ 46%	-	18,800
	Surtax Exemption	-	(230)
10	Total Income Tax	4,340	18,570

(END OF APPENDIX B)