

Decision S4 03 097

SEP 19 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
Arrowhead Manor Water Company for a
general rate increase for water for
1984 in San Bernardino County.

} Application 83-12-19
(Filed December 12, 1983)

Ernie Schoettmer and Gerald W. Peasley, for
Arrowhead Manor Water Company, applicant.
Catherine T. Miller and Kathryn King, for
themselves, protestants.
Albert A. Arellano, Jr., for the Commission
staff.

O P I N I O N

By this application Arrowhead Manor Water Company, Inc. (Arrowhead) requests authority to increase rates for water service. Arrowhead filed an Advice Letter on August 26, 1983 requesting authority under the provisions of General Order (GO) 96-A and Public Utilities (PU) Code § 454 to increase rates for water service producing \$54,160 or 96.7% additional annual revenue for the estimated year 1984. After receiving in excess of 80 letters and one petition containing signatures representing 52 properties from customers opposing the application, the Advice Letter was docketed as a formal application.

Public and evidentiary hearings were held in the service area community of Twin Peaks before Administrative Law Judge (ALJ) Lemke July 17 and 18, 1984. The matter was submitted subject to the receipt of staff late-filed Exhibit 6 by August 1.

General Information

Arrowhead's present rates other than surcharge rates, were established by Decision (D.) 90877 dated October 10, 1979.

The utility's service area consists of 400 acres of ridged, wooded terrain with elevations varying from 4,800 to 5,440 feet. The several tracts within the service area are divided into about 4,300 lots, of which approximately 3,600 are suitable as home sites. Water is available to most lots, but in some areas where there has been no residential development the mains are not maintained.

Arrowhead provides service to 168 metered and 421 flat-rate customers within and adjacent to the community of Cedar Glen, a mountain resort area located approximately one mile southeast of Lake Arrowhead in San Bernardino County. The system, created by the interconnection of two separate systems in 1957, is supplied water from a tunnel diversion, a horizontal well, and from connections with the Crestline-Lake Arrowhead Water Agency (CLAWA).

By D.92178 dated September 3, 1980 in Application (A.) 57533 Arrowhead was authorized to enter into a \$910,520 loan agreement, under the Safe Drinking Water Bond Act of 1976, with the Department of Water Resources (DWR); to use the loan proceeds to pay for the installation of system improvements; and to establish annual surcharges, payable on a prorated basis, to amortize the principal and make 5.4% interest payments on the loan over a period of 35 years. Annual surcharges of \$109 were authorized by D.92178 for both flat-rate service and 5/8 by 3/4-inch meter service. Surcharges for larger metered connections were authorized at higher levels.

Notice and Public Hearing

Notice of public and evidentiary hearing was published in the Mountain News, a newspaper of general circulation, on June 21, 1984. Notice of the hearings was also sent to each customer informing them of the hearing dates and of the rates proposed under the application.

About 35 customers attended the public hearing, eleven offering statements in opposition to the application. Questions by customers included (a) the need for a 97% rate increase, (b) the lack of adequate pressure, (c) whether significant benefits have accrued since the imposition of the surcharge by D.92178, (d) the need to pay \$17,500 for a new 3/4-ton company truck, and (e) the approach recommended by the staff for spreading the surcharge authorized by D.92178.

Evidence

Arrowhead presented its evidence through the testimony of Gerald Peasley, a certified public accountant. Peasley presented Exhibit 1, the Advice Letter filing containing the original summary of earnings, which is reproduced in Table 1.

Table 1
Summary of Earnings

Item	1982 Recorded	1984 Estimated	
		Present Rates	Proposed Rates
Operating Revenues	\$57,194	\$56,020	\$110,180
<u>Operating Expenses</u>			
Management	18,000	19,900	19,900
Other Operating Expense	<u>44,401</u>	<u>62,780</u>	<u>63,590</u>
Subtotal	62,401	82,680	83,490
Depreciation Expense	4,488	6,390	6,390
Taxes Other Than Income	3,262	5,340	6,420
Income Taxes	<u>200</u>	<u>200</u>	<u>3,210</u>
Total Deductions	70,351	94,610	99,510
Net Revenue	-	-	10,670
Rate Base	90,538	90,810	90,810
Rate of Return	-	-	11.75%

Table 2 shows Arrowhead's present and proposed rates, without DWR surcharges.

Table 2

Metered Service	Per Service Per Quarter	
	Present Rates	Proposed Rates
Quarterly Quantity Rates:		
First 900 cu-ft., or less, per 100 cu-ft.	\$.60	\$ 1.18
Over 900 cu-ft., per 100 cu-ft.	.70	1.38
Service Charge:		
For 5/8 x 3/4-inch meter.....	18.12	35.60
For 3/4-inch meter.....	20.00	39.40
For 1-inch meter.....	27.50	54.20
For 1-1/2-inch meter.....	36.88	72.70
For 2-inch meter.....	50.00	98.50

The service charge is applicable to all metered service. It is a readiness-to-serve charge which is added to the charge, computed at the Quantity Rate, for water used during the quarter.

Flat Rate Service	Per Service Per Quarter	
	Present Rates	Proposed Rates
For Single-Family Residential Unit, Including Premises	\$23.13	\$45.50
For Each Additional Single-Family Residential Unit on the Same Premises and Served from the Same Service Connection	15.63	30.80

Table 3 is a comparison of Arrowhead's and the staff's estimated summaries of earnings at present and proposed rates.

Table 3

Item	Arrowhead		Staff	
	Present Rates	Requested Rates	Present Rates	Requested Rates
Operating Revenue	\$ 56,020	\$110,180	\$ 55,860	\$109,870
Operating Expenses	82,680	83,490	76,280	76,280
Depreciation Expenses	6,390	6,390	5,600	5,600
Taxes Other Than Income	5,340	6,420	4,990	5,530
Income Taxes	200	3,210	200	5,200
Total Expenses	94,610	99,510	87,070	92,610
Net Operating Revenue	(38,390)	10,670	(31,210)	17,260
Rate Base	90,810	90,810	91,230	91,230
Rate of Return	Loss	11.75%	Loss	18.9%

(Red Figure)

Table 4 is the detail of Arrowhead's and staff's 1984 estimated operating expenses, contained in staff Exhibit 3, showing the differences in staff and utility calculations in the various expense categories.

Table 4

Item	Arrowhead		Staff	
	Present Rates	Requested Rates	Present Rates	Requested Rates
Source of Supply	\$ -	\$ -	\$ 130	\$ 130
Purchased Water	4,800	4,800	4,800	4,800
Pumping Water	6,300	6,300	6,300	6,300
Employee Labor	-	-	7,500	7,500
Materials	4,600	4,600	4,600	4,600
Contract Work	4,500	4,500	4,500	4,500
Office Salaries	14,200	14,200	10,000	10,000
Management Salaries	19,900	19,900	15,600	15,600
Office Supplies and Exp.	2,600	2,600	2,080	2,080
Insurance	7,890	7,890	7,750	7,750
Accounting, Legal, etc.	2,600	2,600	3,170	3,170
General Expense	7,380	8,190	3,000	3,000
Vehicle Expense	4,610	4,610	3,740	3,740
Office and Storage Rental	3,300	3,300	3,110	3,110
Operating Expenses	82,680	83,490	76,280	76,280

Table 5 is the revised summary of earnings offered by Arrowhead at the hearing in Exhibit 2, showing the categories of revenues and expenses where the utility agrees and disagrees with staff estimates.

Table 5

	<u>Requested Rates</u>		<u>Arrowhead</u>		<u>Arrowhead Agreed Summary of Earnings</u>
	<u>Arrowhead</u>	<u>Staff</u>	<u>Agrees With</u>	<u>Disagrees Staff</u>	
Operating Revenues	\$110,180	\$104,8700	\$104,870	\$ -	\$109,870
Operating Expenses					
Source of Supply	-	130	130	-	130
Purchase Water	4,800	4,800	4,800	-	4,800
Pumping Power	6,300	6,300	6,300	-	6,300
Employer Labor	-	7,500	7,500	-	7,500
Materials	4,600	4,600	4,600	-	4,600
Contract Work	4,500	4,500	4,500	-	4,500
Office Salaries	14,200	10,000		14,200	14,200
Management Salaries	19,900	15,600	15,600		15,600
Office Supplies & Exp.	2,600	2,080	2,080		2,080
Insurance	7,890	7,750	7,750		7,750
Accounting, Legal, etc.	2,600	3,170		3,630	3,630
General Expense	8,190	3,000		6,730	6,730
Vehicle Expense	4,610	3,740	3,740		3,740
Office & Storage Rev.	3,300	3,110	3,110		3,110
Total Operating Exp.	<u>83,490</u>	<u>76,280</u>			84,670
Depreciation Expense	6,380	5,600	5,600		5,600
Taxes other than Income	6,420	5,530		5,920	5,920
Income Taxes	<u>3,210</u>	<u>5,200</u>		3,170	<u>3,170</u>
Total Expense	<u>99,510</u>	<u>92,610</u>			<u>99,360</u>
Net Operating Rev.	10,670	17,266		10,510	10,510
Rate Base	90,810	91,230	91,230		91,230
Rate of Return	11.75%	18.91%		11.52%	11.52%

Discussion of Differences in Recommendations

As will be noted from Table 5, Arrowhead has agreed with the staff engineer's revenue estimate and expense recommendations except in connection with office salaries, accounting expenses, general expenses, and tax calculations stemming from these expense differences. Employee labor expense of \$7,500 was not shown in Arrowhead's original summary of earnings because until recently most operations and maintenance work was done by Mr. Schoettmer, the proprietor.

Staff states that due to health problems Mr. Schoettmer cannot continue to run the company as a one-man operation and has employed a part-time assistant whom he is training for the operations and maintenance duties. Schoettmer and the staff agree that \$7,500 is adequate compensation for the part-time assistant.

Recorded combined office and management salaries were \$23,250 for 1981 and \$27,000 for 1982. Salaries for 1983 were estimated as \$32,500 but only \$18,750 was paid because of a shortfall of revenue. Arrowhead estimated \$34,100 for 1984 salaries, not including the part-time assistant. Staff recommends a combined salary of \$25,600 for management and office, with \$15,600 for the management portion of this package and \$10,000 for the office salary. The office salary is for work performed by Mrs. Schoettmer. Thus, the combined office, management, and employee package recommended by the staff is \$33,100. Arrowhead agrees with the reduction to \$15,600 (from \$19,900) recommended by the staff in connection with management salary but takes issue with the reduction by the staff for office salary from \$14,200 to \$10,000.

Peasley testified that the office salary payable to Mrs. Schoettmer is for duties performed in maintaining the office, preparing billings, collecting payments, maintaining customer accounts, handling communications with customers, etc. on a full-time basis at \$1,183 per month.

In view of the recent surcharge burden experienced by the customers of Arrowhead, and also because the company is operating at a deficit and will need a substantial increase based on the evidence adduced in this proceeding to operate with a reasonable profit, we will authorize amounts in this category of expense which will only reflect nominal increases. Arrowhead paid in 1982 a total of \$27,000 for management and office salaries—\$18,000 for management and \$9,000 for office. It paid \$18,750 for management salary during 1983, but was unable to pay any office salary due to revenue shortages. Increasing the \$9,000 recorded 1982 office salary by an inflation factor of 5% for each of years 1983 and 1984 approximates the recommended staff allowance of \$10,000 and is reasonable for purposes of this proceeding. Increasing Schoettmer's recorded 1982 management salary of \$18,000 by 5% for each of years 1983 and 1984 results in a salary for that office of approximately \$20,000. Reducing that salary by \$7,500 on the assumption that Mr. Schoettmer will no longer be performing the duties of the new employee is reasonable under the circumstances. Therefore, for the three categories discussed, we will adopt expenses of \$10,000 for office salary, \$12,500 for management salary, and \$7,500 for employee labor, a total of \$30,000.

Arrowhead originally estimated accounting and legal expenses for 1984 of \$2,600. This consisted of \$1,500 for normal accounting activities (preparation of annual report and income tax returns), \$100 allowance for legal services and one-third of the \$3,000 estimated expense of the Advice Letter rate increase filing. Subsequent expenses and estimates of accountant's participation in the hearings increased the cost of the general rate case from \$3,000 to \$5,875. Amortized over three years, this is \$1,960 bringing the total annual expense to \$3,560 (\$1,960 plus \$1,600).

The staff agrees with the \$1,600 normal accounting and legal expense, but estimated the rate case expense as follows:

- (1) \$1,000 allowance for immediate out-of-pocket expenses associated with conversion of the Advice Letter filing to an application;
- (2) Reevaluating the remaining \$4,875 of Arrowhead's rate case expense which represents 65 hours of accountant's time at \$75 per hour, to 65 hours at \$55 per hour, or \$3,575, and
- (3) \$140 for per diem and mileage for the accountant to attend the hearings.

These three items total \$4,715 which, amortized over three years, is about \$1,570 per year. This amount added to the \$1,600 normal accounting and legal expense is \$3,170, or \$570 more than the \$2,600 originally requested by the applicant.

Arrowhead's figures for these expenses appear reasonable. By D.84-08-033 dated August 1, 1984 in A.82-12-48 (mimeo page 16) we found reasonable a rate of \$100 per hour for attorney fees and expert witnesses fees. The difference in consultant's fees accounts for almost the entire difference in the staff and utility estimates in this category of expenses. In light of our finding in D.84-08-033 Arrowhead's calculation is reasonable and will be adopted.

The difference in general expenses shown in the adjusted summary of earnings is \$3,730, and is entirely attributable to the desire on the part of Arrowhead to establish a pension plan for its three employees. Arrowhead believes that a pension benefit is not something that is exorbitant, that it is standard practice today in similar businesses. Staff notes that this proposal is not the continuation of an established pension plan, but represents a proposed Simplified Employee Pension-Individual Retirement Account (SEP-IRA) under Internal Revenue Code § 408(k). Staff witness testified that only the owners are currently qualified to participate in the plan, and absent any benefit to the customers does not recommend approval of such expenses for ratemaking purposes.

While a pension expense may be allowable in many circumstances, we do not consider it a proper one for Arrowhead's employees in this situation at this time, coming as part of a request to virtually double customer rates. There are about 3,600 suitable home sites in Arrowhead's service area and only 589 connections. If and when sufficient customer growth takes place in the area to spread expenses over a somewhat larger patronage, we will then reevaluate the propriety of including a pension expense for Arrowhead's employees. But pension expenses will not be adopted for ratemaking purposes in this proceeding.

Utility Plant

Arrowhead plans the following acquisitions:

- (1) New meters required by DWR contract-\$6,300,
- (2) A computer compatible with California Water Association software for billing and bookkeeping - \$3,000,
- (3) A metal detector to locate water mains to replace a 20-year old detector-\$500,
- (4) A three-quarter ton, four wheel drive truck to replace Arrowhead's 1962 truck-\$17,500, and
- (5) An equipment box for the truck-\$500.

The above items have not been purchased because Arrowhead has not been able to afford them. Staff believes the company is in need of all the items. It believes that Arrowhead can procure these items by the end of 1984 if a reasonable rate increase is authorized.

The staff engineer testified that the computer is necessary to handle the "report card" billing recently required of small water companies by the Commission as well as to make bimonthly or quarterly billings rather than present annual billings and to modernize the bookkeeping system.

We will authorize the proposed new meters, computer, and metal detector acquisitions. However, we will authorize only \$15,000 for the total of a new truck and equipment box. The staff witness conceded that Arrowhead may be able to purchase a suitable truck for something less than the \$17,500 figure. We expect the company will use extra care in "shopping around" for a suitable truck to replace the superannuated vehicle presently used, if confronted with the \$15,000 limit imposed by this decision. Arrowhead will be required to furnish evidence of acquisition of the computer, metal detector, truck, and equipment box within 45 days of the effective date of rates authorized by this decision.

Income Taxes

Arrowhead and the staff calculated the company's income tax liability as though ownership rights to the DWR financed improvements, relating to depreciation and investment tax credit, belong to the utility. (Arrowhead has opted for the rate base reduction). Arrowhead asked at the hearing that its accounting methodology be ratified. The Commission's Evaluation and Compliance Division advises it has recently been informed by DWR that utilities hold title to SDWBA plant improvements. Therefore, the calculations employed by Arrowhead and the staff are correct.

Rate of Return

Arrowhead originally requested an 11.75% rate of return. In its agreed summary of earnings that request was reduced to 11.52%. The staff witness reported that the rate of return section of the Revenue Requirements Division has reviewed Arrowhead's recorded financial statements and capitalization ratios. The staff witness notes that Arrowhead is financed 100% by equity, and recommends that an 11.0% rate of return be authorized for setting rates in this proceeding. We concur with the staff. Small water companies such as Arrowhead do not have the same financial risks experienced by Class A water utilities who are financed with the combination of debt and equity capital. A rate of return of 11.0% is adequate in these circumstances.

Our adopted Summary of Earnings at present and proposed rates is shown in the following Table 6:

Table 6

Arrowhead Manor Water Co.
Adopted Summary of Earnings
Estimated Year 1984

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenue	\$ 55,860	\$97,420
<u>Operating Expenses</u>		
Source of Supply	130	130
Purchased Water	4,800	4,800
Purchased Power	6,300	6,300
Employee Labor	7,500	7,500
Materials	4,600	4,600
Contract Work	4,500	4,500
Office Salaries	10,000	10,000
Management Salaries	12,500	12,500
Office Suppl. & Expenses	2,080	2,080
Insurance	7,750	7,750
Accounting, Legal, etc.	3,630	3,630
General Expenses	3,000	3,000
Vehicle Expenses	3,740	3,740
Office & Storage, Rent.	<u>3,110</u>	<u>3,110</u>
Subtotal	73,640	73,640
Depreciation	5,600	5,600
Taxes Other Than Income	4,990	5,320
Income Taxes	<u>200</u>	<u>2,980</u>
Total Deductions	84,430	87,540
Net Operating Revenues	(28,570)	9,880
Rate Base	89,760	89,760
Rate of Return	LOSS	11.0%

(Red Figure)

Rate Structure

Arrowhead's present rates are payable on an annual basis, in advance. It proposes to assess annual rates billed on a quarterly basis, in advance. The latter basis will provide a more uniform cash flow to the company and will remove the burden on ratepayers of the need to pay a single, very large bill. Arrowhead's tariffs should clearly state that the quarterly rates are one-fourth of the annual rates, and that the total annual amounts must be ultimately paid if service is provided for any fraction of a year.

Arrowhead's tariff for annual residential flat rate service includes options under which permanent residents who have been customers for 12 months or more "...may elect, at the beginning of the calendar year, to pay prorated flat rate charges and annual surcharges in advance at intervals of less than one year, (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods." The tariff also provides: "A nonpermanent resident may elect to pay the annual charge and surcharge in two equal installments. Where such a resident has failed to pay the first half of the annual charge and surcharge due January 1, service shall not be restored until the total annual charge has been paid."

Arrowhead's tariff for annual metered service includes similar provisions by which permanent residents who have been customers for at least 12 months "...may elect, at the beginning of the calendar year to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual service charge". (Underlining added.) Staff notes that applicant has "service charge" rates rather than "minimum" charges and recommends that the underlined word "minimum" be changed to "service" and the remaining underlined passage be deleted. This proposal is reasonable and will be adopted.

In 1975 Arrowhead submitted an Advice Letter (No. 17) containing agreements between the utility and two customers "...for water service under special conditions not covered by the utility's filed tariff." The main which serves the two customers is particularly susceptible to freezing and must be isolated and drained for several months each year. Special agreements provided "...a 40% discount on the filed tariff rate for annual service."

The staff engineer states he has not been able to find any evidence that the agreements have been acted upon by the Commission. Arrowhead has billed these two customers in accordance with the above Advice Letter each year since 1975. The engineer believes that the special agreements should either be formally acknowledged or rejected in favor of a seasonal flat rate schedule which would make seasonal rates available to any qualifying customer. Staff favors the first approach because it would simply validate a long-standing practice. We cannot concur; the provision is obviously unduly preferential. Arrowhead will be ordered to include the above special provision in its tariff, reworded to be applicable to all customers who experience such conditions.

Arrowhead has included a special condition in its proposed tariff which purports to guard against any revenue shortfall caused as a result of a nonpermanent customer temporarily discontinuing service. Staff took issue with the precise form of Arrowhead's proposal¹ and urged that any such rule authorized conform to more conventionally worded rules. We are authorizing the continuance of annual rates as a result of this proceeding, which are payable once service is established regardless of how many months a service connection remains hooked up. Such annual rates obviate the need for the proposed rule. But if Arrowhead believes it is necessary to include such a rule for clarification, or emphasis, the wording contained in a staff-proposed rule² is clearer and provides the protection required in unequivocal terms. The staff proposal will be authorized.

¹ The proposed wording, contained in Special Condition 2, is as follows: "Where initial service is established after the first day of any quarter, the portion of such quarterly charge applicable to the current quarter shall be determined by pro-rating the quarterly charge and surcharge based on the number of days remaining in the calendar quarter. If service is not continued for at least one quarter after the date of initial service, no refund on the initial charge shall be due the customer."

² Temporary Discontinuance of Service: Where the use of water is seasonal or intermittent, no adjustments will be made for a temporary discontinuance of service. Any customer prior to resuming service within twelve months after such service was discontinued will be required to pay all charges which would have been billed if service had not been discontinued.

Rate Design

The staff engineer testified that a negative 1.54% lifeline differential (difference between cost of service to lifeline user and average system user) was established in the previous general rate case which became effective in 1979 by D.90877. He has developed a comparison of annual customer bills without user fees or DWR surcharges, for metered service at Arrowhead's present and adopted rates for a 5/8 x 3/4-inch meter. This information is shown in Table 7.

Table 7

<u>Annual Usage 100 Cu.ft.</u>	<u>Present Bill</u>	<u>Adopted Bill</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 72.50	\$126.00	\$ 53.50	73.8%
36	94.10	158.40	64.30	68.3
44 (avg.)	99.70	169.04	69.34	69.5
50	103.90	177.02	73.12	70.4
100	138.90	243.52	104.62	75.3
200	208.90	376.52	167.62	80.2
400	348.90	642.52	293.62	118.0

Arrowhead's present annual metered rates, without the DWR surcharge, were established by D-90877, dated October 10, 1979, which granted the utility a 37.1% increase in annual revenue. The increase to "lifeline" (for first 300 cubic feet per month) with these rates over the rates effective January 1, 1976 was 39.25%. The staff states that in order to achieve a 25% lifeline differential in connection with the rates in this proceeding, which will result in a 74.4% overall increase, the lifeline rates would have to increase only 37.5%, and that this would require a 44% reduction in service charge. However, the quantity rates would then have to be increased over four times in order to generate the required revenue. Therefore staff recommends that rates be set to achieve a zero percent lifeline differential in this proceeding and that the 25% differential be considered in Arrowhead's next general rate increase proceeding. This approach, too, appears fair and equitable at this time in view

of the magnitude of both the recent DWR surcharge increase and the rate increases we are authorizing in this proceeding.

Service

The staff conducted a field investigation of Arrowhead's system in March 1984. Staff observed two exposed mains and was told of others that are either exposed or so lightly covered that they are subject to freezing in the wintertime. Staff also observed a vault on Hook Creek Road in which pressure-regulated valves are located. The vault was nearly full of water and there seemed to be no way of draining the vault except by pumping. Some customers also told the staff that valves located throughout the system are completely buried and must be dug out by shovel whenever necessary to isolate a main for repairs. Several customers have such low water pressure that they have installed their own booster pumps. These include two customers on Pine Ridge Drive within 400 feet of a new main to the Pine Ridge Tank. Furthermore, staff observed that the Balsam Booster Station has two booster pumps arranged in parallel but only one operates automatically. Finally, the backup booster at Booster Station F is inoperative.

Staff reported that items mentioned in the correspondence section of the formal file or in conversations with customers address the following issues:

- a. Many full-time residents are retired people on fixed income or young couples with growing families;
- b. Many customers are week-end and vacation occupants who use relatively little water;
- c. Some flat rate customers would prefer metered service; however Arrowhead's tariffs do not provide for installation of meters at customer request;

- d. Some customers would prefer seasonal rates;
- e. Several customers mentioned having been intimidated or threatened by Arrowhead's owner.³

Staff Recommendations

Staff recommends the following improvements in the system:

- a. Install a gravity drain for the pressure regulator vault on Hook Creek Road.
- b. Install valve boxes to protect and provide access to all buried valves.

³ D.90877 dated October 10, 1979 in A-57533 and A-58868 contained the following reprimand: "Applicant and its officers are placed on notice that physical threats, threats to arbitrarily discontinue service, verbal abuse, and harrassing telephone calls to its customers are not acceptable methods for meeting their public utility obligations. Repetition of such unacceptable conduct can result in further Commission action under Chapter 11 of Division 1 of the Public Utilities Code (Violations)." The Commission reduced the President's management salary by 10 percent (\$1,500) and reduced the operating revenues by the same amount.

- c. Rewire controls for booster pumps at the Balsam station to provide fully automatic operation of both pumps.
- d. The 15-horsepower booster pump at Booster Station F should be repaired and reactivated to provide a backup to the 25-horsepower main booster.
- e. Replace the old 2 (or 2½)-inch main in Pineridge Drive east of the new main to the Pineridge tank and connect it to the new main.

Staff also recommends that a systematic program of replacing substandard or leaky mains and lowering mains with insufficient cover to prevent freezing in wintertime should be undertaken and aggressively pursued. These recommendations will be adopted. Arrowhead's president will also be admonished that the previous warning concerning his conduct toward customers is still germane.

The Commission, on June 15, 1983 adopted a service improvement policy with respect to Class A, B, C, and D water utilities, a feature of which is to reduce the rate of return for a utility having an outstanding Commission improvement order until the utility complies. We will include in this decision an order reducing Arrowhead's rate of return to zero if the service improvements are not timely performed.

DWR Surcharge

D.92178 authorized Arrowhead to establish a surcharge yielding about \$64,660 additional annual revenue to pay interest, amortize principal and pay administrative expenses to retire, over a period of 35 years, a DWR improvement loan under the Safe Drinking Water Bond Act (SDWBA) of 1976, administered by the California Department of Health Services (DHS). Completion of the improvement project was certified in a letter from DHS to DWR dated August 30, 1983.

The purpose of the loan was to meet fire-flow requirements of the Lake Arrowhead Fire Protection District, provide improved pressure to certain areas, and provide for future addition of new mains and replacement of old mains. D.91278 recognized that not all customers would benefit equally from the system improvements:

"We also place applicant on notice that it is our intent to review the surcharge amount in applicant's next general rate increase proceeding to determine whether the surcharge amount should be reduced for those customers receiving only marginal improvement in the water service after the construction work authorized herein is completed."

Staff believes that the total annual surcharge revenue should be reduced, the reductions going primarily to customers who have not benefitted or benefitted the least from the improvements, and that surcharge rates should be established to facilitate periodic billing. Staff alleges that this course of action would reduce the surplus which has accumulated in the DWR fiscal account, minimize the financial burden of the DWR project for those who benefit least from it, and relieve the financial impact of large annual bills on customers of limited means.

In September 1983 Arrowhead furnished the staff with a map of its service area divided into three zones. Zone 1 consists of areas served primarily from the new improved hydropneumatic system; Zone 2 consists of other areas served by new 8-inch mains and other mains connected to the new mains; Zone 3 consists of areas remotely located from the DWR improvements. Arrowhead believes customers in Zones 1 and 2 receive direct benefits from the DWR improvements, but that those in Zone 3 do not directly benefit. Staff originally determined (Exhibit 4) that there are 187 connections in Zone 1, 276 in Zone 2, and 126 in Zone 3.

The staff engineer determined from an analysis of information provided by the Bank of America, fiscal agent for the DWR loan that after the July 1, 1984 payment Arrowhead's trust account would have a surplus of approximately \$17,320 over and above the required reserve of about \$58,900. He calculated that the surcharge revenue requirement can be reduced by \$13,980 annually from \$64,480 to \$50,500.

Following the July 18 hearing, the engineer again investigated the DWR-benefit status of Arrowhead's customers. He has furnished in late-filed Exhibit 6, a map of the service area reproduced from the map submitted by Arrowhead in September 1983. Boundaries, delineating what the branch engineer believes now fairly represent the DWR-benefited customers, are indicated on the map. He determined that some customers whose houses are outside of the hydropneumatic zone (Zone 1) nevertheless receive service from those new mains. He has adjusted the Zone 1 boundary to include those customers. Some Zone 2 customers, not located along the DWR-financed mains or recently installed 4-inch mains connected thereto, are served from sections of 2-inch main that are now connected to the new mains. The engineer states that generally these customers should be classified as directly benefitting from the DWR project. He determined that 28 customers along Eucalyptus Road, Hook Creek Road and Maple Drive in the eastern part of the service area, previously classified as nonbenefitting, have had substantial pressure improvement. All are on 4-inch or 2-inch mains connected to 8-inch DWR-financed mains. Only two customers are more than 1/4 mile from 4-inch or 8-inch mains. Service is provided from a tank 100-feet higher in elevation than the tank that previously served this area, and this change has provided a 40 pound increase in pressure.

The engineer now believes that another group of benefitting customers should be added to the three set forth in his Exhibit 4. This classification includes customers located along or taking service from the 2-inch mains in the following streets:

- a. Eucalyptus Drive northeasterly from its intersection with Walnut Road and Hickory Drive;
- b. Hook Creek Road northeasterly from the end of the DWR-financed main at Poplar Lane;
- c. Maple Drive northeasterly from the end of the DWR-financed main; and
- d. Certain other streets having 2-inch and 4-inch mains served from 8-inch DWR mains.

There are several other customers, who the engineer has determined do not now significantly benefit from the DWR project, whose service will be improved, on assurances to the engineer from Arrowhead, when replacement of the mains serving them is completed. These customers are located on Pineridge Drive east of Alder Lane, and on Alder Lane south of Pineridge Drive. Completion date for this new construction is scheduled before the 1984-85 winter sets in. Relying on Arrowhead's assurance, the engineer has included these customers in his count of benefitting customers. He recommends that those customers who will have benefitted from installation of the new mains before January 1, 1985 be billed at the rate adopted in this proceeding for benefitting customers, and that any customers not so connected be billed on the nonbenefitting basis during 1985 and until their status is changed under a procedure set forth in Exhibit 4 (Paragraph 12). Under this recommendation, Arrowhead would be required to provide the Commission, by October 31st of any year, written description of the improvements made since the previous report and the number of customers that are or could be served from

the upgraded main. Arrowhead would then be required, by not later than December 31 of that same year, to file an Advice Letter in accordance with Section VI of General Order Series 96 stating the reason for the reclassification, the number of customers reclassified, and the amounts of the surcharges involved and number of customers receiving such increases.

The engineer talked with several customers along Pine Drive, south of Oakhurst Drive and along Hook Creek Road beyond the DWR main who are served from a 1½ iron main running south from the Pine-Oakhurst intersection. The engineer believes that these groups should be classified as nonbenefitting until the Hook Creek Drive main is extended to serve the Hook Creek properties and the Old Pine Drive main is replaced. Finally, the engineer determined that five customers served from a 1½-inch main along less than 4/10 of a mile of Pine Drive running in a southerly direction from Cedar Drive, and a nearby customer on Mohogany Lane at the intersection with Dale Lane have not benefitted significantly from the DWR project and should be classified as nonbenefitting.

From his reconfiguration of these zones, the engineer has determined (Exhibit 6) that there are approximately 388 benefitting and 200 nonbenefitting customers. He recommends DWR surcharges for 5/8 x 3/4-inch metered and flat rate benefitting customers of \$102 and rates for nonbenefitting customers of \$54. Progressively higher rates for larger size meter connections apply. He calculates that these rates will produce annual DWR surcharge revenues of about \$50,680. The surcharge rates, both present and recommended, together with conditions applicable thereto are set forth in Table 8.

Table 8

Meter Size	Present Rates		Recommended Rates			
	Equivalent Annual	Monthly*	Direct-Benefit** Annual	Monthly	Non-Benefit# Annual	Monthly
5/8 x 3/4"	\$109.00	\$ 9.08	\$102.00	\$ 8.50	\$ 54.00	\$ 4.50
3/4"	163.50	13.63	153.00	12.75	81.00	6.75
1"	272.50	22.71	255.00	21.25	135.00	11.25
1 1/2"	545.00	45.42	510.00	42.50	270.00	22.50
2"	872.00	72.67	816.00	68.00	432.00	36.00

Flat Rate

Single Fam. Res.	\$109.00	\$ 9.08	\$102.00	\$ 8.50	\$ 54.00	\$ 4.50
Add'l. Res. Connections	73.65	6.14	66.00	5.50	36.00	3.00

* Equivalent monthly present rates are included in this table for comparison. Only annual rates are currently authorized.

** Direct benefit surcharge is applicable to the following customers:

- (1) Those located within that portion of the service area served by the hydropneumatic pressure system,
- (2) Those located along the new mains financed by the DWR loan who are served or could be served from those mains,
- (3) Those located along a 4-inch main laid in or about 1978 along Redwood Road from Hook Creek Road, where it connects to the DWR-financed main, to the vicinity of Tamarack Road who are served or could be served from that main, and
- (4) Those located along or taking service from the 2-inch mains in the following streets:
 - (a) Eucalyptus Drive northeasterly from its intersection with Walnut Road and Hickory Drive,
 - (b) Hook Creek Road northeasterly from the end of the DWR-financed main at Poplar Lane,
 - (c) Maple Drive northeasterly from the end of the DWR-financed main, and
 - (d) Certain other streets having 4-inch and 2-inch mains connected to 8-inch DWR mains.

Non-benefit surcharge is applicable to all customers not included in footnote**.

The recommendation of the branch engineer is based upon a thorough evaluation of the system in response to our declaration in D.92178 that we would review the applicable surcharges in Arrowhead's next general rate proceeding. The approach used by the engineer ensures that those customers benefitting the most from the DWR improvements will pay in accordance with that benefit. Those benefitting the least will pay less. This is reasonable because although those customers may see no direct benefit in their own individual service, the benefit to the overall system from implementation of the improvements must be considered as accruing to their advantage also. The rates recommended by the engineer in Exhibit 6 will be adopted. Arrowhead will be required to furnish evidence of replacement of the main serving the Pineridge Drive and Alder Lane customers.

Findings of Fact

1. Arrowhead's present rates, other than DWR surcharge rates, were established by D.90877 dated October 10, 1979.
2. Arrowhead is operating at a loss under its present rates.
3. An increase in annual revenues of 74.4% will allow Arrowhead the opportunity to earn a rate of return on an adopted rate base of \$89,760 of 11.0%. 11.0% is an adequate rate of return for Arrowhead at this time.
4. Expenses of \$10,000 for office salary, \$12,500 for management salary, and \$7,500 for employee salary are reasonable for ratemaking purposes in this proceeding. Arrowhead's proposed expense of \$3,630 for accounting and legal costs is reasonable. Adopted general expense of \$3,000 will exclude proposed pension costs, and is appropriate in light of the circumstances surrounding this proceeding.

5. The proposed acquisitions of new meters, office computer, and metal detector, estimated to cost \$6,300, \$3,000, and \$500, respectively, are necessary to the efficient operation of Arrowhead. A total cost of \$15,000 for acquisition of a new truck and equipment box is adequate.

6. A rate design under which a 25% lifeline differential is achieved would require only a 37.5% increase in lifeline rates and a 44% reduction in the applicable service charge. However, the quantity rates would have to be increased by over four times under this concept resulting in an unreasonable increase for quantity block users. Setting rates resulting in a zero percent lifeline differential is reasonable for purposes of this proceeding.

7. The adopted Summary of Earnings shown in Table 6 is reasonable for purposes of this proceeding.

8. Arrowhead's rates apply on an annual basis in advance. Allowing the utility to assess annual rates, billed on a quarterly basis, will result in more uniform cash flow to Arrowhead and ease the burden to customers of a single large payment.

9. Arrowhead's tariff contains service charges, as opposed to minimum charges. Wording in its tariff should reflect the correct basis of charges.

10. Arrowhead provides a 40% discount on its tariff charges to two customers served by a main which must be isolated and drained each year. This practice appears unduly preferential because it is not available to all customers similarly situated.

11. The following improvements to Arrowhead's system are needed:

- a. Installation of a gravity drain for the pressure regulator vault on Hook Creek Road.
- b. Installation of valve boxes to protect and provide access to all buried valves.

- c. Rewiring controls for booster pumps at the Balsam station to provide fully automatic operation of both pumps.
- d. Repairing and reactivating the 15-horsepower booster pump at Booster Station F to provide a backup to the 25-horsepower main booster.
- e. Replacement of the old 2 (or 2½)-inch main in Pineridge Drive east of the new main to the Pineridge tank and of the old main in Alder Lane south of Pineridge Drive and connection of both to the new main.

Also needed is a systematic program of replacing substandard or leaky mains and lowering mains with insufficient cover to prevent freezing in wintertime. The Commission has adopted a service improvement policy which provides for reducing a utility's rate of return until outstanding Commission service improvement orders are complied with.

12. Arrowhead's DWR trust account had a surplus of approximately \$17,320 over the required reserve of \$58,900. The surcharge revenue required to amortize the loan authorized by D.91278 can be reduced annually from \$64,480 to \$50,500. Present DWR surcharge rates are uniformly applicable to all customers.

13. The revised DWR surcharge rates set forth in Table 8 of this decision provide for the assessment of a lesser basis of charges to nonbenefitting customers than to direct benefitting customers, and are reasonable.

Conclusions of Law

1. Revenue increases of 74.4%, or \$41,560 over present revenues, based upon the adopted summary of earnings, should be authorized.

2. Revised DWR surcharge rates contained in Table 8 providing for the assessment of lesser rates to nonbenefitting than to direct benefitting customers, should be authorized.

3. Arrowhead should provide the Commission with written information whenever the classification of a customer is changed from nonbenefitting to benefitting as a result of new mains being installed and connected to DWR-financed mains.

4. The staff's recommended rate design is reasonable and should be adopted. Rates should be named on a quarterly basis and clearly state that quarterly rates are one-fourth of the annual rates.

5. General revenue and DWR surcharge rates adopted by this decision are just, reasonable, and nondiscriminatory.

6. Arrowhead should be authorized to file the rate schedules attached as Appendixes A.

7. Because of the urgent need for additional revenue, the following order should be effective on the date of signature.

8. Arrowhead should undertake and complete the improvements shown in Findings 5 and 11 during 1985. If the improvements are not completed, Arrowhead's rate of return should be reduced to zero.

O R D E R

IT IS ORDERED that:

1. Arrowhead Manor Water Company, Inc. (Arrowhead) is authorized, after the effective date of this order, to file the revised rate schedules in Appendixes A, on a prorated basis, and to concurrently withdraw and cancel its present schedules. Such filings shall comply with General Order Series 96.

2. The revised rate schedules may be effective on 5 days' notice to the Commission, and shall apply only to service rendered on and after their effective date.

3. Arrowhead shall include in its revised tariff schedules wording which refers to service charges, rather than minimum charges. Rates shall be published on a quarterly basis, and shall clearly state that the quarterly rates are one-fourth of the total applicable annual charge.

4. Arrowhead shall undertake and complete the system improvements shown in Finding 11.

5. Whenever new mains are installed and connected to the DWR-financed mains, customers that are or could be served from the new mains shall be reclassified as benefitting and thereafter shall pay the corresponding surcharge. Arrowhead shall, not later than October 31 of any year, provide the Commission with written description of the qualifying improvements that have been made since the previous report and the number of customers that are or could be served from the upgraded main or whose service is substantially improved thereby. Arrowhead shall then submit, not later than December 1 of that same year, an advice letter in accordance with Section VI of General Order Series 96 stating the reason for the reclassification, the number of customers being reclassified, the amounts of the surcharge increases involved and the number of customers receiving each increase, and the increase in annual surcharge revenue. The reclassification will become effective January 1 of the following calendar year.

6. Arrowhead's revised tariff schedules shall contain a rule which provides for seasonal reduced rates to all customers who are served by mains which must be drained because of freezing; and shall concurrently cancel the present similar risk pertaining to two customers.

7. Arrowhead's president, officers, and employees shall continue to be governed by the reprimand contained in Finding 4 of D.90877, dated October 10, 1979 in A.57533 and A.58868 concerning conduct toward customers.

8. Arrowhead shall furnish the Commission with evidence of acquisition or order of the computer, metal detector, truck, and equipment box authorized within 45 days of the effective date of this decision.

9. In the absence of satisfactory compliance with Ordering Paragraphs 4 and 8, the rate of return authorized herein shall be reduced from 11.0% to 0.0%.

10. Arrowhead shall furnish the Commission, by November 30, 1984, with evidence of replacement of mains serving customers located on Pineridge Drive east of Alder Lane, and on Alder Lane south of Pineridge Drive. If such evidence is not received by November 30, 1984, these customers shall be reclassified as nonbenefitting in accordance with Section V of General Order Series 96.

11. The application is granted as set forth above. ✓

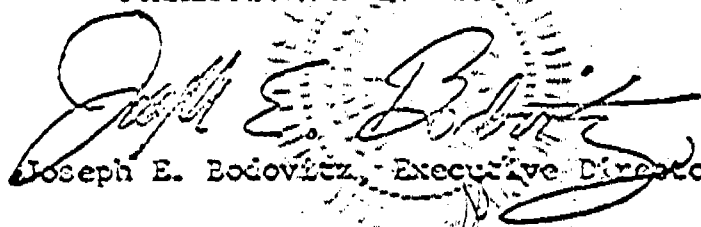
This order is effective today.

Dated September 19, 1984, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

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

APPENDIX A

Page 1

ARROWHEAD MANOR WATER CO., INC.

Schedule No. 1A

ANNUAL METERED SERVICE

BILLED QUARTERLY

(N)

APPLICABILITY

Applicable to all metered water service furnished on a annual basis billed quarterly

(N)

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

Quarterly Quantity Rates:

Per Meter
Per Quarter

(C)

First 900 cu.ft., per 100 cu.ft.
Over 900 cu.ft., per 100 cu.ft.

\$0.90 (I)
1.33 (I)

(C)
(C)

1/

Annual Service Charges:

Per Service Connection Per Year
Surcharge

Service Charge	Direct Benefit	Non-Benefit
----------------	----------------	-------------

For 5/8 x 3/4-inch meter	\$126.00 (I)	\$102.00 (R)	\$ 54.00 (R)	(C)
For 3/4-inch meter	141.00	153.00	81.00	
For 1-inch meter	192.00	255.00	135.00	
For 1 1/2-inch meter	252.00	510.00	270.00	
For 2-inch meter	336.00 (I)	816.00 (R)	432.00 (R)	(C)

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

METERED SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charges for metered service. The amount of the surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan obtained through the Department of Water Resources (DWR) and authorized by Decision No. 92178.

1/ Quarterly rates are one-fourth the total applicable annual charge

APPENDIX A

Page 2

Customers are classified as Direct-Benefitting or Non-Benefitting (from the system improvements financed by the loan) According to the following criteria:

(N)

Direct-benefit surcharge is applicable to the following customers:

- (1) Those located within that portion of the service area served by the hydropneumatic pressure system,
- (2) Those located along the new mains financed by the DWR loan who are served or could be served from those mains,
- (3) Those located along a 4-inch main laid in or about 1978 along Redwood Road from Hook Creek Road, where it connects to the DWR financed main, to the vicinity of Tamarack Road who are served or could be served from that main,
- (4) Those located along or taking service from the 2-inch mains in the following streets:
 - (a) Eucalyptus Drive northeasterly from its intersection with Walnut Road and Hickory Drive,
 - (b) Hook Creek Road northeasterly from the end of the DWR-financed main at Poplar Lane,
 - (c) Maple Drive northeasterly from the end of the DWR-financed main and
- (5) Those located along certain other streets having 4-inch and 2-inch mains connected to 8-inch DWR mains.

Non-benefit surcharge is applicable to all other customers.

Customers will be reclassified as direct-benefitting when they are or could be served from new mains installed hereafter that are connected to DWR-financed mains in accordance with Ordering Paragraph 5 of Decision No. 84-09- in Application No. 83-12-19, or are served from relatively short laterals of 2-inch diameter or more coming from a 4-inch or larger main connected to a DWR-financed main.

(N)

APPENDIX A

Page 3

SCHEDULE 1A

ANNUAL METERED SERVICE

BILLED QUARTERLY (Continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect at the beginning of the calendar year, to pay pro rated service charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. (T) (C)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charge shall be due the customer.

APPENDIX A

Page 4

ARROWHEAD MANOR WATER COMPANY

Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

BILLED QUARTERLY

(N)

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis, billed quarterly.

(N)

TERRITORY

The unincorporated community of Cedar Glen and vicinity, located approximately one mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	1/ Per Service Connection Per Year		
	Surcharge		
	<u>Charge</u>	<u>Direct Benefit</u>	<u>Non-Benefit</u>
For a single-family residential unit, including premises.....	\$162.00 (I)	\$102.00(R)	\$ 54.00 (R)
For each additional single-family residential unit on the same premises and served from the same service connection.....	\$108.00 (I)	\$66.00(R)	\$36.00 (R)

FLAT RATE SERVICE SURCHARGE

NOTE: This surcharge is in addition to the regular charge for flat rate service. The amount of the surcharge must be identified on each bill. The total surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act loan obtained through the Department of Water Resources (DWR) and authorized by California Public Utilities Commission Decision No. 92178.

Customers are classified as Direct-Benefitting or Non-Benefitting (from the system improvements financed by the loan) according to the following criteria:

(N)

(N)

(A) Direct-benefit surcharge is applicable to the following customers:

(1) Those located within that portion of the service area served by the hydropneumatic pressure system,

1/ Quarterly rates are one-fourth the total applicable annual charge.

(N)

APPENDIX A

Page 5

- (2) Those located along the new mains financed by the DWR loan who are served or could be served from those mains,
- (3) Those located along a 4-inch main laid in or about 1978 along Redwood Road from Hook Creek Road, where it connects to the DWR financed main, to the vicinity of Tamarack Road who are served or could be served from the main,
- (4) Those located along or taking service from the 2-inch mains in the following streets:
 - (a) Eucalyptus Drive northeasterly from its intersection with Walnut Road and Hickory Drive,
 - (b) Hook Creek Road northeasterly from the end of the DWR-financed main, and
- (5) Those located along certain other streets having 4-inch and 2-inch mains connected to 8-inch DWR mains.

(B) Non-benefit surcharge is applicable to all other customers.

Customers will be reclassified as benefitting when they are or could be served from new mains installed hereafter that are connected to DWR-financed mains in accordance with Ordering Paragraph 5 of Decision No. 84-09- in Application No. 83-12-19, or are served from relatively short laterals of 2-inch diameter or more coming from a 4-inch or larger main connected to a DWR-financed main.

SPECIAL CONDITIONS

1. The above flat rate and surcharge applies to a service connection not larger than one inch in diameter.
2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1A, Annual Metered Service Billed Quarterly, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the meter service charge for the same period shall be made on or before that day.
3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area

APPENDIX A

Page 6

Schedule 2RA

Annual Residential Flat Rate Service

Billed Quarterly (Continued)

has been a customer of the utility for at least 12 months; he may elect, at the beginning of the year, to pay prorated flat rate charges and annual surcharge in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. A nonpermanent resident may elect to pay the annual charge and annual surcharge in four equal installments. Where such a resident has failed to pay the first quarter of the annual charge and surcharge due January 1, service will not be restored until the total annual charge and surcharge has been paid. (T)

4. The opening bill for flat rate service shall be the established annual flat rate charge and surcharge for the service. Where initial service is established after the first day of any year, the portion of such annual charge and surcharge applicable to the current year shall be determined by multiplying the annual charge and surcharge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge and surcharge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. (T)

5. The flat rate charge for customers served from mains that are isolated and drained during the winter shall be reduced by 40%. (N)

(END OF APPENDIX A)

APPENDIX B

Page 1

ADOPTED QUANTITIES

Name of Company: Arrowhead Manor Water Co.

Net-to-Gross Multiplier: 1.3014
 Federal Tax Rates: 15%
 State Tax Rate: 9.6%
 Local Franchise Tax Rate: 1.0%
 Business License: 0
 Uncollectible Rates: 0

<u>Offset Items</u>	<u>Test Year</u> 1984
1. <u>Purchased Power:</u>	
<u>Southern California Edison Co. Rates</u>	
Total Cost	\$6,300
KWh	70,650 KWh
Eff. Sch. Date	1-1-84
\$/KWh used	0.07240
2. <u>Purchased Water:</u>	
<u>Crestline-Lake Arrowhead Water Assn. Rates</u>	
Total Cost	\$4,800
Acre Feet	10 AcFt
\$/Ac.Ft. used	\$ 480/AcFt
Effective Date	7-1-83
3. <u>Pump Tax-Replenishment Tax</u>	None
4. <u>Payroll and Employee Benefits:</u>	
Operation and Maintenance	\$ 7,500
Administrative and General	22,500
Total	30,000
Pensions and Benefits	2,810
5. <u>Ad Valorem Taxes:</u>	
Ad Valorem Taxes	1,410
Tax Rate	1.414%
Assessed Value	\$99,700

APPENDIX B

Page 2

ADOPTED QUANTITIES

Name of Company: Arrowhead Manor Water Co.

Metered Water Sales Used to Design Rates

<u>Range-Ccf</u>	<u>Usage-Ccf</u> <u>1984</u>
0 to 3	3,957
Over 3	<u>3,509</u>
Total Metered Usage	7,466

Customers & Usage

	<u>No.</u> <u>1984</u>	<u>Usage</u> <u>Ccf</u> <u>1984</u>	<u>Avg. Usage</u> <u>Ccf/Yr.</u> <u>1984</u>
<u>Commercial</u>			
Metered	168	7,466	44.4
Flat	421	86,243	204.8
Industrial	-	-	-
Public Authority	-	-	-
Other	-	-	-
Subtotal	<u>589</u>	<u>93,709</u>	<u>159.1</u>
Private Fire Protection	-	-	-
Public Fire Protection	-	-	-
Total	<u>589</u>	<u>93,709</u>	<u>159.1</u>

Water Loss @ 15%

14,056

Total Water Produced

107,765

Service by Meter Size

<u>Meter Size</u>	<u>Services</u>
5/8 x 3/4"	163
3/4"	4
1"	<u>1</u>
Total	168

Flat Rate Services

<u>Class</u>	<u>Services</u>
Single Family Residence	418
Additional Residence on Same Property	<u>3</u>
Total	421

APPENDIX B

Page 3

ADOPTED RATE BASE

<u>Item</u>	<u>Test Year 1984</u>
Utility Plant	\$189,480
Depreciation Reserve	(91,340)
Plus CWIP	-
Plus Materials & Supplies	4,110
Plus Working Cash	0
Less Advances	0
Less Contributions	(9,710)
Saturation Adjustment	-
Depreciated Rate Base	94,340
Average Rate Base	94,340
Less Deferred Income Taxes	(4,580)
Rate Base	\$ 89,760

APPENDIX B

Page 4

ADOPTED INCOME TAX CALCULATION

<u>Item</u>	1984 <u>Adopted Rates</u>	
	<u>CCFT</u>	<u>FTT</u>
Operating Revenue	\$97,420	\$97,420
O&M Expenses	73,640	73,640
Taxes Other Than Income	5,320	5,320
Tax Depreciation	5,600	5,600
Interest	-	-
CCFT	-	1,235
Subtotal Deductions	84,560	85,795
State Taxable Revenue	12,860	-
CCFT @ 9.6% (\$200 Min.)	1,235	-
Federal Taxable Revenue	-	11,625
Federal Income Tax @ 15%	-	1,745
Total Income Taxes	\$ 1,235	\$ 1,745

(END OF APPENDIX B)

8. Arrowhead shall furnish the Commission with evidence of acquisition or order of the computer, metal detector, truck, and equipment box authorized within 45 days of the effective date of this decision.

9. In the absence of satisfactory compliance with Ordering Paragraphs 4 and 8, the rate of return authorized herein shall be reduced from 11.0% to 0.0%.

10. Arrowhead shall furnish the Commission, by November 30, 1984, with evidence of replacement of mains serving customers located on Pineridge Drive east of Alder Lane, and on Alder Lane south of Pineridge Drive. If such evidence is not received by November 30, 1984, these customers shall be reclassified as nonbenefitting in accordance with Section V of General Order Series 96.

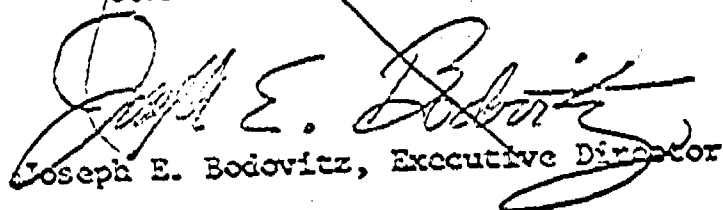
This order is effective today.

Dated SEP 19 1984, at San Francisco, California.

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

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

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


Joseph E. Bodovitz, Executive Director