

Decision **89 05 054**

MAY 26 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Azusa Valley Water
Company (U-325W) for authorization
to increase rates and charges for
water service.

) Application 88-09-062
) (Filed September 30, 1988)
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Mailed

MAY 26 1989

OPINION

Summary

This decision authorizes Azusa Valley Water Company (Azusa) to increase rates by \$179,900 or 7.46% to recover the costs of plant investment associated with the completion and placement into operation of its Canyon Filtration plant.

Background

Decision (D.) 87-01-060 in amended general rate increase Application (A.) 86-04-003 authorized Azusa Valley Water Company (Azusa) to file increased water rates for 1987, to request step rate increases for 1988, and to request an attrition rate increase in 1989. The decision further authorized Azusa to file an application for authorization to earn a return on its proposed water treatment plant following completion of that major plant addition. We directed Azusa to reflect the expense impacts of changes in the mix of treated surface water, well supplies, and purchased water supplying its system. Azusa was authorized to file a separate application related to the treatment plant addition or to include that increase in its 1989 attrition filing.

In the subject application, Azusa requests an increase in rates of \$179,900 or 7.46% to recover the costs of plant associated with the Canyon Filtration Plant. Azusa proposes to incorporate all of the General Metered Service increase in its service charges and to increase its private fire protection service rate. The requested rates will enable Azusa to recover about 41% of its fixed

costs in service charges; that percentage is below the 50% fixed cost cap adopted by the Commission.

The rate of return on rate base for Azusa operations for the 12 months ending June 30, 1988 was 7.65%. Its pro forma adjusted rate of return for that period was 8.02%. Azusa also adjusted the 1988 test year results of operation adopted in D.87-01-060 to reflect inclusion of the treatment plant in its rate base, changes in operating expenses, and use of current income tax rates.

Azusa based income taxes on current tax rate taxes rather than the income tax rates used in D.87-01-060 in its pro forma calculations. Azusa estimates that a rate increase of \$179,000 (7.467%) would restore its rate of return on rate base to the 12.159% authorized in D.87-01-060.

Azusa's water supply is obtained from treating surface water runoff diverted from the San Gabriel River, wells in San Gabriel Valley groundwater basins, and purchases from the Metropolitan Water District of Southern California (MWD).

Due to groundwater contamination Azusa had to cut back production from some of its wells. Expansion of Azusa's treatment plant was the most cost-effective method to replace its lost water supply.

Azusa completed the Canyon Filtration Plant expansion in June 1988. The total cost of the new addition was \$1,403,300, including \$102,400 in capitalized interest.¹ This expansion will reduce the amount of purchased water from 1,256 acre feet to 630 acre feet, at an annual savings of \$146,000. This savings in purchased water will be offset in part by increased operating expenses of \$83,600 as follows: \$9,600 for purchased power; \$1,900

¹ In A.86-04-003 Azusa estimated the addition would cost about \$1,468,000 excluding capitalized interest.

for purchased water; \$1,400 for chemicals; \$33,200 for depreciation; and \$15,700 for ad valorem taxes.

Discussion

The Water Utilities Branch reviewed the application, inspected the treatment plant, and prepared a report (Exhibit 1). The Water Utilities Branch recommends that the Commission issue an ex parte order authorizing Azusa to put into effect the proposed rates set forth in Appendix B to Azusa's application.

There has been no public opposition to the expansion of the filtration plant in the course of A.86-04-003. Azusa has given public notice of the proposed rate increase by publishing notice in the local newspaper on November 5, 1988. No protests or comments have been received.

A review of the complaints received by the Water Utilities Branch and the Consumer Affairs Branch indicates that Azusa's service is satisfactory. There are no Commission orders requiring Azusa to further improve its system.

As of October 31, 1988, Azusa's balancing accounts were undercollected by \$20,500 or 0.9% of gross revenues. The Commission does not require Azusa to amortize an undercollection of less than 2% of revenues in its rates.

In Advice Letter 48 Azusa filed its Tax Reform Act of 1986 refund surcharge schedule. Azusa stated the surcharge figure is subject to later adjustment to the extent it is subsequently determined not to be in compliance with D.88-01-061.

Use of present income tax rates in that calculation is reasonable. That determination does not affect any possible refund related to the Tax Reform Act of 1986 refund surcharge.

The proposed service charges will recover about 41% of Azusa's fixed costs which is less than the 50% limitation established in water rate design policy D.86-05-064.

Based upon the foregoing, we conclude that the proposed increase in rates, as set forth in Appendix B to the application, is reasonable and should be granted.

Findings of Fact

1. Azusa's water supply is obtained from treating surface water runoff diverted from the San Gabriel River, wells in San Gabriel Valley groundwater basins, and purchases from MWD.

2. Due to groundwater contamination Azusa had to cut back production from some of its wells.

3. Expansion of Azusa's treatment plant was the most cost-effective method to replace its lost supply. Azusa also considered treatment of its contaminated well supply or purchases of additional water from MWD.

4. D.87-01-060 authorized Azusa to file an application to earn a return on its water treatment plant addition and to reflect the changes in its operations resulting from expansion of the treatment plant.

5. The subject application meets the requirements of D.87-01-060. In addition Azusa reflected current income tax rates in its pro forma calculations.

6. The proposed service charges will recover about 41% of Azusa's fixed costs. Azusa's proposed rates are consistent with our rate design policy established in D.86-05-064.

7. The proposed increase would not increase Azusa's rate of return above that found reasonable in D.87-01-060.

8. After notice, no protests were filed in this proceeding.

Conclusions of Law

1. Azusa's modification of the adopted results of operation in D.87-01-060 for test year 1988 to reflect the expense and rate base impacts of the treatment plant addition is reasonable.

2. Use of present income tax rates in that calculation is reasonable. That determination does not affect any possible refund related to the Tax Reform Act of 1986 refund surcharge. Azusa's

rate of return has dropped below the rate of return found reasonable in D.87-01-060 on recorded and pro forma bases.

3. There is no need to amortize the undercollection of Azusa's balancing accounts at this time.

4. Azusa's proposed revenue increase of \$179,900 (7.46%) based on the above-described modifications of the adopted 1988 results of operations shown in Table 2 of D.87-01-060 is reasonable.

5. The increases in rates and charges proposed by Azusa are just and reasonable; and the present rates and charges insofar as they differ from those prescribed are for the future unjust and unreasonable.

6. No hearing is necessary.

7. The order should be made effective today to afford Azusa the opportunity to earn the rate of return found reasonable in D.87-01-060.

ORDER

IT IS ORDERED that:

1. Five days after the effective date of this decision, Azusa Valley Water Company is authorized to file the revised schedule of rates contained on pages 2 and 4 of Exhibit B attached to the application modified to reflect the changes contained in its Advice Letters 47 and 48 for its Tax Reform Act of 1986 Refund Surcharge and its 1989 attrition rate increase.

2. Rates shall be effective 7 days after filing and shall be applied to service rendered on and after their effective date.


3. The application is granted as set forth above.

This order is effective today.

Dated MAY 26 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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


Victor Weisner, Executive Director