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Decision 92-11-040 November 23, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of the AZUSA VALLEY WATER COMPANY
(U 235 W) for an order authorizing
it to increase rates for water
service.

ORIGINAL

Application 92-06-031
(Filed June 30, 1992)

OPINION

Azusa Valley Water Company ("Azusa" or "the utility") filed this application pursuant to Ordering Paragraph 5 in Decision (D.) 90-12-068 in Application (A.) 90-03-015,¹ which required the utility to file an application to include a reservoir in rate base. The utility plans to construct a four-million gallon concrete reservoir at the top of its distribution system and in proximity to its Canyon Filtration Plant. It asserts that the construction will cost \$2.45 million. The reservoir will serve three main objectives:

1. To increase the chlorine contact time for proper treatment of giardia cysts and viruses, in accordance with amendments to the Safe Drinking Water Act.
2. To improve energy efficiency of the filtration plant and distribution pumping.
3. To increase fire flow and emergency water capacity.

¹ This application was a general rate case. There was a dispute between Azusa and Staff concerning the immediacy of need for the reservoir. The decision found that applicant has justified the need for the reservoir but had not supplied enough economic information, including cost savings anticipated. The decision authorized the filing of an application for inclusion of the plant in rate base.

The reservoir will permit the utility to reduce its cost for purchased water, saving slightly over \$100,000 per year. However, since there will be a corresponding increase in production from wells, the savings will be partially offset by an increase of over \$80,000 in assessments for such production. Production will be more energy-efficient than pumping purchased water, producing a net savings in pumping costs of roughly \$40,000 per year. Ad valorem taxes will increase (by \$28,300/yr.), as will depreciation (\$28,900).

The major factor in the rate increase request is amortization of the debt which will require payments of roughly \$366,000 per year. The increase in interest payment and in depreciation and ad valorem tax will be somewhat offset by a reduction in the amount payable in California franchise and federal income taxes.

The applicant's rate of return for the 1992 test year was authorized at 11.17%; the net of all changes in expenses and outlays will reduce the return to 8.94% when the reservoir is added to rate base. The requested rate increase of \$278,800 would bring the rate of return back to 11.17%.

The present rates for the utility became effective January 1, 1992, pursuant to D.90-12-069, dated December 19, 1990, and Advice Letter 55.

A notice of the proposed rate increase was published in the San Gabriel Valley Daily Tribune on July 8, 1992. The Water Utility Branch has received no letters and no telephone calls concerning the rate increase. In the past two years, the Consumer Affairs Branch has not received any informal complaints concerning water service.

The City of Azusa issued a negative declaration on the effect on the environment. It supports the reservoir construction as shown in Exhibit E to the application.

The utility's Board of Directors has approved the grading of the site to be done in September and the building of the reservoir will follow.

The proposed rate increase will increase the average monthly residential customer bill with a 5/8 x 3/4-inch meter by \$1.17 (7.7%) based on a typical usage of 1,900 cubic feet.

The Water Utility Branch recommends that the requested increase be granted ex parte. It recommends, however, that the proposed rate design, as shown in Exhibit B to the application, should be modified to reflect policy on rounding the numbers. It proposes the following rate design.

Schedule No. 1

General Metered Service

<u>Service Charge</u>	<u>Utility Proposed</u>	<u>Staff Recommended</u>
5/8x3/4	\$1.17	\$1.15
3/4	1.75	1.80
1	2.92	2.90
1 1/2	5.84	5.80
2	9.35	9.40
3	17.53	18.00
4	29.21	29.00
6	58.42	58.00
8	77.56	78.00

Schedule No. 4 Private Fire Protection Service

For each inch of diameter	
of connection	\$1.13
	\$0.62

The Water Utility Branch alleges that service is satisfactory and that there are no significant service problems requiring corrective action. It notes that there are no other Commission orders requiring system improvement.

Findings of Fact

1. Applicant needs to construct a new reservoir for the following purposes:

- a. To increase the chlorine contact time for proper treatment of giardia cysts and viruses, in accordance with amendments to the Safe Drinking Water Act.
- b. To improve energy efficiency of the filtration plant and distribution pumping.
- c. To increase fire flow and emergency water capacity.

The proposed plant is required by the public interest and the plant should be added to applicant's rate base when placed in service.

2. When the plant is placed in service, its current rates will become unjust and unreasonable, because they will not cover the capital costs and return on the investment.

3. When the new reservoir is placed in service, a rate increase will be justified, in an amount necessary to cover net increase of costs.

4. Service is satisfactory. There are no Commission orders requiring system improvement, nor are there significant service problems requiring corrective action.

5. The rates set forth in Appendix A will be just and reasonable when the proposed plant is added to applicant's rate base.

Conclusions of Law

1. Applicant does not require a certificate of public convenience and necessity to construct the proposed plant.

2. Applicant should have an opportunity to earn its last authorized rate of return once the reservoir is placed in rate base; applicant should be authorized to increase its rates to the extent necessary for that purpose.

ORDER

IT IS ORDERED that:

1. Azusa Valley Water Company is authorized to file an advice letter incorporating the rates set forth in Appendix A when the new storage reservoir is completed and placed in service.

2. If the plant cost is less than estimated, applicant shall file an advice letter, setting forth rates which are appropriately less than those set forth in Appendix A.

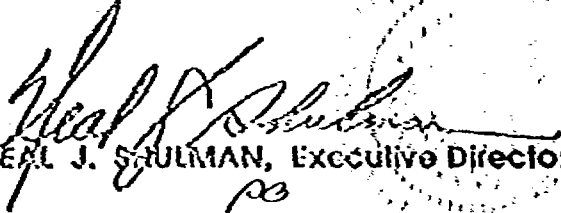
This order becomes effective 30 days from today.

Dated November 23, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President

JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SCHULMAN, Executive Director

APPENDIX A

Schedule No. 1 General Metered Service

Adopted Quantity Rate:	<u>Present</u>	<u>Increase</u>	<u>Adopted</u>
For all water per 100 cu.ft.	0.57	0.00	0.57
Service Charge:			
For 5/8 X 3/4			
3/4	4.85	1.15	6.00
1	7.00	1.80	8.80
1 1/2	12.00	2.90	15.10
2	22.00	5.80	27.80
3	35.10	9.40	44.50
4	67.00	18.00	85.00
6	184.00	58.00	242.00
8	268.00	78.00	346.00

Schedule No. 4 Private Fire Protection Service

For each inch of diameter of connection.....	4.53	0.62	5.15
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(END OF APPENDIX A)