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Decision 82 04 009

APR - 6 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Larkfield Water Company for authority)
to increase rates and charges for)
water service in the unincorporated)
area of Larkfield Estates and vicinity)
in Sonoma County.)

Application 60328
(Filed March 6, 1981)

John H. Engel, Attorney at Law, for
Larkfield Water Company, applicant.
Brian T. Cragg, Attorney at Law,
Edward Cooke, and Arthur Choy,
for the Commission staff.

O P I N I O N

In Application (A.) 60328, Larkfield Water Company (Larkfield), a subsidiary of Citizens Utilities Company (Citizens), seeks an increase in water rates within its service territory.

The amount of the proposed revenue increase is \$236,600 or an increase of 126.9% in 1981 and \$19,100 or an increase of 4.5% in 1982.

A duly noticed public hearing was held before Administrative Law Judge Orville I. Wright in Santa Rosa on May 26 and 27, 1981, and in San Francisco on June 16, 1981. Final submission date for the last of the issues involved in this proceeding was September 14, 1981.

Testimony was presented by Bobby E. Pierce, W. B. Stradley, Edward W. Schwartz, and Arthur T. Smithson for Larkfield, and by Arthur D. Choy, Edward L. Cooke, and Robert M. Pocta for the Commission staff. Part of the record of these hearings was consolidated with a portion of the record of other related applications filed by Citizens' subsidiaries.

Summary of Decision

Larkfield is granted a general rate increase of \$162,600 for test year 1981 and a further increase of \$2,000 for test year 1982. The increase for 1981 is 71.9% and the increase for 1982 is 0.5%.

A rate of return of 12.04% on rate base is found reasonable. Return on equity is 13.2%.

Table I, following, shows revenues, expenses, and rate base for 1981 as developed by Larkfield and staff, differences being labeled "at issue." Adopted revenues and expenses at present rates and at adopted rates are also depicted.

Table II presents the aforesaid data for 1982, and Tables III and IV show rate base issues and their resolution.

As this order will be effective in 1982 we ordinarily would base rates upon the revenue requirement for the 1982 test year. The total revenue increase for test year 1982 is \$166,300 or 72.8%. However, in order to lessen the immediate impact on consumers of justified but unusually precipitous rate increases, we have adopted a policy of allowing no more than a 50% raise in rates in any one year. Consonant with this policy, we authorize a revenue increase of \$114,200 or 50% for test year 1982, the revenue difference being deferred to 1983 and 1984 as shown in Appendixes A and B. Appendix E shows the method used in deferring income and in compensating Larkfield for postponement of full rate relief.

For test year 1981 \$200 of the revenue requirement is due to the Economic Recovery Tax Act of 1981 (ERTA); the effect for test year 1982 is \$1,700. In the future the effect could increase. We will direct Larkfield to notify its customers of the ERTA effect on rates. (See Appendix D.)

Discussion of the issues resolved in this proceeding as shown in Tables I through IV is contained in Decision (D.) 82-02-059, Citizens Utilities Company of California's (Citizens-California) Sacramento County Water District, and in D.82-03-023, Citizens-California's Guerneville Water District. That discussion is incorporated here by reference as if fully set forth.

Rate Design

Since January 1, 1976, the system average revenue has increased by approximately 100%, and the full 25% lifeline differential has previously been achieved. The increase authorized by this decision is spread to retain the current ratio of revenue from service charges and quantity rates. The quantity rates are changed from a single-block quantity rate structure to a two-block quantity rate structure with 300 cubic feet in the first block and inverted rates.

Larkfield proposed no increase in rates for either private fire protection or public fire hydrant service, and, staff concurring, these rates remain unchanged. Rincon Valley Fire District notified Larkfield that the District would no longer pay for public fire protection service as of January 1, 1980, under Public Utilities Code § 2713. We will grant Larkfield's request that the rate schedule for public fire hydrant service be canceled.

Description of Larkfield

Larkfield provides water service to some 791 customers in the unincorporated areas of Larkfield, Wikiup, and Fulton, Sonoma County. The system has four wells, a water treatment plant, approximately 597,000 gallons of storage, and about 86,517 feet of transmission and distribution main.

D.88126 issued on November 22, 1977 directed Larkfield to file a plan of system improvements and, upon approval of that plan, to proceed with construction. A plan was approved on May 10, 1978, and all projects were completed by June 20, 1980 at a total cost of \$686,866 or about \$860 per customer.

Public Witness Testimony

Members of the public who testified in this proceeding were in general agreement that the quality of water and service had improved in the last several years. However, opposition was uniformly expressed to the magnitude of the rate increases being sought by Larkfield. These views were expressed by Warren A. Munson, Sally C. Evans, June Fallon, Gordon Gaddis, F. D. Newcomb, and Lloyd Harwood.

TABLE I

Citizens Utilities Company of California
Larkfield Water Company
1981 Summary of Earnings

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted Revenues & Expenses</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>					
Metered	\$ 225,300	\$ -	\$ 225,300	\$ 225,300	\$ 387,900
Flat Rate	-	-	-	-	-
Private Fire Protection	500	-	500	500	500
Other	200	-	200	200	200
Total Operating Revenues	<u>226,000</u>	<u>-</u>	<u>226,000</u>	<u>226,000</u>	<u>388,600</u>
<u>Operating Revenue Deductions</u>					
Salaries and Wages	25,900	-	25,900	25,900	25,900
Materials, Serv. & Miso.	8,000	2,800	5,200	5,200	5,200
Purchased Power	25,700	1,900	23,800	23,800	23,800
Balancing Acct. (T.I.A.)	-	-	-	800	800
Customer Acct. & Miso.	4,900	1,500	3,400	3,400	3,400
Transportation Expense	2,500	-	2,500	2,500	2,500
Telephone and Telegraph	300	-	300	300	300
Banking Charges	-	(300)	300	-	-
Uncollectible Accounts	900	-	900	900	1,500
Administrative Office Exp.	18,400	500	17,900	18,400	18,400
Legal and Reg. Com. Exp.	7,800	5,500	2,300	7,800	7,800
Insurance	1,000	-	1,000	1,000	1,000
Injuries and Damages	1,800	700	1,100	1,800	1,800
Welfare and Pensions	7,400	1,700	5,700	7,400	7,400
Rents	-	-	-	-	-
Miscellaneous and Per Diem	300	200	100	300	300
Franchise Tax	-	-	-	-	-
Ad Valorem Tax	15,200	-	15,200	15,200	15,200
Payroll Tax	2,000	-	2,000	2,000	2,000
Depreciation Expense	37,700	-	37,700	37,700	37,700
Income Taxes	5,200	(9,500)	14,700	10,100	93,100
Total Oper. Rev.					
Deductions	165,000	5,000	160,000	164,500	248,100
Net Operating Revenues	61,000	(5,000)	66,000	61,500	140,500
Average Depr. Rate Base	1,183,600	31,300	1,152,300	1,167,300	1,167,300
Rate of Return	5.15%	(.58)%	5.73%	5.27%	12.04%

(Red Figure)

TABLE II
Citizens Utilities Company of California
Larkfield Water Company
1982 Summary of Earnings

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<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted Revenues & Expenses</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>					
Metered	\$ 227,600	\$ -	\$ 227,600	\$ 227,600	\$ 393,900
Flat Rate	-	-	-	-	-
Private Fire Protection	500	-	500	500	500
Other	200	-	200	200	200
Total Operating Revenues	228,300	-	228,300	228,300	394,600
<u>Operating Revenue Deductions</u>					
Salaries and Wages	28,500	-	28,500	28,500	28,500
Materials, Serv. & Miso.	8,700	3,000	5,700	5,700	5,700
Purchased Power	25,900	1,900	24,000	24,000	24,000
Balancing Acct. (T.I.A.)	-	-	-	800	800
Cust. Acct. & Miso.	5,400	1,800	3,600	3,600	3,600
Transportation Expense	2,500	-	2,500	2,500	2,500
Telephone and Telegraph	300	-	300	300	300
Banking Charges	-	(300)	300	-	-
Uncollectible Accounts	900	-	900	900	1,600
Admin. Office Expenses	20,200	500	19,700	20,200	20,200
Legal and Reg. Com. Expense	7,800	5,500	2,300	7,800	7,800
Insurance	1,000	-	1,000	1,000	1,000
Injuries and Damages	2,000	900	1,100	2,000	2,000
Welfare and Pensions	8,000	1,800	6,200	8,000	8,000
Rents	-	-	-	-	-
Miscellaneous and Per Diem	300	200	100	300	300
Franchise Tax	-	-	-	-	-
Ad Valorem Tax	16,400	-	16,400	16,400	16,400
Payroll Tax	2,200	-	2,200	2,200	2,200
Depreciation Expense	37,900	-	37,900	37,900	37,900
Income Taxes	3,100	(9,600)	12,700	8,100	92,900
Total Oper. Rev. Deductions	171,100	5,700	165,400	170,200	255,700
Net Operating Revenues	57,200	(5,700)	62,900	58,100	138,900
Average Depr. Rate Base	1,159,100	22,700	1,136,400	1,153,400	1,153,400
Rate of Return	4.93%	(.61)%	5.54%	5.04%	12.04%

(Red Figure)

TABLE III

Citizens Utilities Company of California
Larkfield Water Company
Rate Base

Test Year 1981

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted</u>
Utility Plant in Service	\$1,606,200	\$ 2,000	\$1,604,200	
Depreciation Reserve	(281,500)	1,300	(282,800)	
Net Utility Plant in Service	1,324,700	3,300	1,321,400	\$1,321,400
Noninterest Bearing CWIP	-	-	-	-
Materials and Supplies	-	-	-	-
Working Cash	41,500	28,000	13,500	28,100
Common Plant	4,100	-	4,100	4,100
Customers' Advances for Construction	(108,300)	-	(108,300)	(108,300)
Contributions in Aid of Construction	(36,200)	-	(36,200)	(36,200)
Reserve for Deferred Federal Income Tax	(42,200)	-	(42,200)	(41,800) ^{1/}
Total Average Depreciated Rate Base	\$1,183,600	\$31,300	\$1,152,300	\$1,167,300

(Red Figure)

^{1/} Effect of ERTA.

TABLE IV

Citizens Utilities Company of California
Larkfield Water Company
Rate Base

Test Year 1982

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted</u>
Utility Plant in Service	\$1,617,100	\$ 2,200	\$1,614,900	
Depreciation Reserve	<u>(319,600)</u>	<u>1,000</u>	<u>(320,600)</u>	
Net Utility Plant in Service	1,297,500	3,200	1,294,300	\$1,294,300
Noninterest Bearing CWIP	-	-	-	-
Materials and Supplies	-	-	-	-
Working Cash	33,000	19,500	13,500	21,600
Common Plant	4,100	-	4,100	4,100
Customers' Advances for Construction	(87,700)	-	(87,700)	(87,700)
Contribution in Aid of Construction	(37,800)	-	(37,800)	(37,800)
Reserve for Deferred Federal Income Tax	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>(41,100)</u> ^{1/}
Total Average Depreciated Rate Base	\$1,159,100	\$22,700	\$1,136,400	\$1,153,400

(Red Figure)

^{1/} Effect of ERTA.

Working Cash

Larkfield estimates working cash for test year 1981 to be \$41,500 and test year 1982 to be \$33,000. Applying D.82-02-059, Sacramento County Water District, here results in our increasing staff's working cash estimate by utility's minimum bank balances and by amortizing rate case expenses over the next three years.

Tax Initiative Account (TIA)

Larkfield's computation of the balance in its TIA as of December 31, 1980 is \$5,418. In accordance with our discussion in D.82-02-059, Sacramento County Water District, we adopt the staff's computation in the amount of \$2,436 and amortize it over three years.

Attrition

As Larkfield will experience gains of revenue for new connections, realize a reduction in revenue requirement due to declining rate base, and as the majority of the increase in operating expense may be offset by advice letter proceedings, it is apparent that an attrition allowance is not warranted for Larkfield.

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test years 1981 and 1982 are reasonable.
2. A rate of return of 12.04% on the adopted rate base of \$1,167,300 for test year 1981 is reasonable.
3. A rate of return of 12.04% on the adopted rate base of \$1,153,400 for test year 1982 is reasonable.
4. Larkfield's earnings under present rates for test year 1981 would produce net operating revenues of \$61,500 on a rate base of \$1,167,300 based on the adopted results of operations, resulting in a rate of return of 5.27%.
5. Larkfield's earnings under present rates for test year 1982 would produce net operating revenues of \$58,100 on a rate base of \$1,153,400 based on the adopted results of operations, resulting in a rate of return of 5.04%.

6. The authorized increases in rates are expected to provide annual increases in revenues of \$162,600 in 1981 and \$2,000 in 1982. ✓

7. Larkfield's level of water service is adequate.

8. The increases in rates and charges authorized for the year 1982 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.

9. Increases in rates authorized for 1983 and 1984 in Appendix B are just and reasonable.

10. The rate design established by this decision is reasonable.

Conclusions of Law

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

2. Because of the immediate need for additional revenues, the following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. Larkfield Water Company (Larkfield) is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1982 Larkfield is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that Larkfield's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1982, exceeds the lower of (a) the rate of return found

reasonable by the Commission for Citizens-California during the corresponding period in the then most recent rate decision, or (b) 12.04%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later.

3. On or after November 15, 1983 Larkfield is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that Larkfield's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for Citizens-California during the corresponding period in the then most recent rate decision, or (b) 12.04%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1984, or 30 days after the filing of the step rate, whichever is later.

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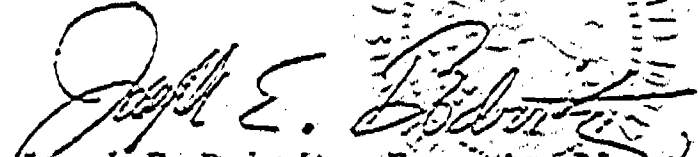
4. Before June 1, 1982, Larkfield shall send to its customers the bill insert set out in Appendix D.

This order is effective today.

Dated APR 6 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. CRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
FRISCHILLA C. GREW
Commissioners

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


Joseph E. Bodovitz, Executive Director

APPENDIX A

LARKFIELD WATER COMPANY
 Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Larkfield Estates and vicinity, located approximately three miles north-
 erly of the City of Santa Rosa, Sonoma County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge		
For 5/8 x 3/4-inch meter.....	\$ 8.00	(I)
For 3/4-inch meter.....	10.00	
For 1-inch meter.....	15.00	
For 1 1/2-inch meter.....	25.00	
For 2-inch meter.....	29.00	
For 3-inch meter.....	58.00	
For 4-inch meter.....	78.00	
For 6-inch meter.....	119.00	

Monthly Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	\$ 0.96	(I)
Over 300 cu.ft., per 100 cu.ft.....	1.18	(I)

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

(END OF APPENDIX A)

APPENDIX B

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

	<u>Effective Dates</u>	
	<u>1-1-83</u>	<u>1-1-84</u>
<u>Service Charge</u>		
For 5/8 x 3/4-inch meter.....	\$ 1.50	\$ -
For 3/4-inch meter.....	3.00	-
For 1-inch meter.....	2.00	-
For 1 1/2-inch meter.....	4.00	-
For 2-inch meter.....	5.00	-
For 3-inch meter.....	10.00	-
For 4-inch meter.....	12.00	-
For 6-inch meter.....	20.00	-
 <u>Quantity Rates:</u>		
For the first 300 cu.-ft., per 100 cu.-ft.	\$ 0.18	-
For all over 300 cu.-ft., per 100 cu.-ft.	0.24	0.01

(END OF APPENDIX B)

APPENDIX C
Page 1ADOPTED QUANTITIES

Company: Larkfield Water Company

	<u>1981</u>	<u>1982</u>
1. <u>Water Production:</u>	199,840 Ccf	201,950 Ccf
Wells	218,220	221,140
2. <u>Electric Power:</u> 1.794	kWh per Ccf	Supplier: PG&E Date: 2-9-81
kWh	392,612	396,729
Cost	\$ 23,800	\$ 24,000
Cost per kWh	\$0.06050/kWh	\$0.06050/kWh
3. <u>Ad Valorem Taxes:</u>	\$ 15,200	\$ 16,400
Tax Rate	1.0593	1.0593
4. <u>Not-To-Gross Multiplier:</u>	2.0568	
5. <u>Uncollectible Rate:</u>	0.3942%	

APPENDIX C

Page 2

6. Number of Services:

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Usage-Ccf/Yr.</u>	
	1981	1982	1981	1982	1981	1982
Commercial-Metered	802	811	199,840	201,950	233.57	233.57
Private Fire Pnt.	4	4				
Public Fire Pnt.	-	-				
Total	806	815				
Water Loss at 9.5%			<u>18,980</u>	<u>19,190</u>		
Total Water Produced			218,820	221,140		

7. Number of Services (by meter size)

<u>Meter Size</u>	<u>1981</u>	<u>1982</u>
5/8 x 3/4"	105	105
3/4"	558	567
1"	108	108
1 1/2"	17	17
2"	10	10
3"	2	2
4"	<u>2</u>	<u>2</u>
Total	802	811

APPENDIX C
Page 3INCOME TAX CALCULATION

Item	1981	1982
(Dollars in Thousands)		
<u>State Franchise Tax</u>		
Operating Revenue	\$ 388,600	\$ 394,600
<u>Expenses</u>		
O&M, A&G, and Taxes Other Than Income	117,300	124,900
<u>Deductions and Adjustments</u>		
Clearing Accounts	(1,400)	(1,400)
Deductible Expense Capitalized	2,200	1,400
Interest	34,900	34,600
Subtotal - Deductions	35,700	34,600
State Tax Depreciation	64,900	61,700
Net Taxable Revenue	170,700	173,400
CCFT at 9.6%	16,400	16,600
<u>Federal Income Tax</u>		
Operating Revenue	388,600	394,600
Expenses	117,300	124,900
Deductions	35,700	34,600
FIT Depreciation	46,200	46,400
CCFT	16,400	16,600
Taxable Income	173,000	172,100
Federal Income Tax at 46%	79,600	79,200
Graduated Tax Adjustment	(500)	(500)
Investment Tax Credit	(2,400)	(2,400)
FIT	76,700	76,300

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Larkfield Water Company

One item of expense in the rate increase recently granted to Larkfield Water Company for the year 1982 by the Public Utilities Commission, amounting to \$1,700 was attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future as a percent of your bill.

(END OF APPENDIX D)

APPENDIX E

<u>1982</u>	<u>Adopted</u> (Dollars in Thousands)	<u>Distribution</u>
Present Rate	\$ 228.3	\$ 228.3
Adopted	394.6	342.5
Increase	166.3 (72.8%)	114.2 (50%)
 <u>1983</u>		
Present	\$ 394.6	342.5
Adopted	394.6	(20.0 ^{a/} + 1.8 ^{b/}) 416.4
Increase	-	73.9
 <u>1984</u>		
Present	394.6	416.4
Adopted	394.6	(19.1 ^{a/} + 4.0 ^{b/}) 417.7
Increase	-	1.3

a/ Deferred amount \$166.3 - \$114.2 = \$52.1

For 9 months \$ 52.1 x $\frac{9}{12}$ = \$39.1

Distribution \$ 20.0 in 1983
\$ 19.1 in 1984

b/ Interest

1982 \$ 20.0 x (12.04%) x $\frac{9}{12}$ = \$1.8

1983 \$ 19.1 x (12.04%) + \$19.1 x $\frac{9}{12}$ x (12.04%) = \$4.0

(END OF APPENDIX E)