

it to break even. The Branch concurs with SMC's plan to meter but believes that any significant improvements to the system, such as metering, be determined only after AWC has had the opportunity to operate and evaluate the system for awhile.

In addition to operating at a loss, for ratemaking SMC's rate base is zero. As discussed below, this results primarily because SMC's outstanding advances for construction, which amount to \$63,720, represent a very large percentage (83%) of its total system plant amount of \$92,138. Advances represent capital supplied by an external party (normally a developer) to a water utility and is used to construct facilities to serve that party. Advances are paid off (refunded) by the water utility to the party over a predetermined period of time as specified in a Commission approved contract (main extension contract). Because refund payments are funds supplied by the utility, they represent the utility's investment or equity in the system and for ratemaking are included in the utility's rate base. Outstanding advances, which represent funds not supplied by the utility, are excluded from rate base.

To ascertain SMC's rate base it is necessary to determine its net investment in the system, which in this case is its investment in total system plant less accumulated depreciation. As mentioned above, of the \$92,138 invested in total plant, \$63,720 represents outstanding advances. The difference of \$28,418 represents SMC's investment in plant. Accumulated depreciation is \$39,260 and includes depreciation on the plant financed by advances whether paid or outstanding. For ratemaking, depreciation is allowed on all plant financed by advances because this plant will ultimately belong to SMC and as with any plant must eventually be replaced as it wears out. SMC's net investment in the system or rate base is -\$10,842 (\$28,418 - \$39,260). The negative amount means that the system is depreciating (wearing out) faster than SMC can build up equity in the system. This peculiar result means that for ratemaking, SMC has no rate base.

SMC's advances for construction are large in relation to rate base because the Commission in D.76723, dated January 27, 1970, which granted a certificate to SMC, ordered that the in-tract facilities (water mains and service connections) be financed by a main extension contract (advances). The water system facilities in the expansion by SMC to serve an additional tract were also financed by a main extension contract. Under Commission policy prior to 1982, advances were paid off based on a percentage gross revenues. The high outstanding advances result because SMC did not prosper and grow as anticipated. The current policy on advances adopted in D.82-01-62, dated January 19, 1982, requires that they be paid off over 40 years at the set rate of 2.5% per year, similar to a loan payback. It is the Branch's view that payback under the current policy is more orderly and works less of a financial hardship on the utility.

A notice of the proposed rate increase was mailed to each customer on October 15, 1985. Eight letters of protest were received. All were complaints about inadequate service and demands for SMC to make necessary improvement before the water company is given the requested rate increase. The Branch has drafted a letter of reply to all customers who have written to the Commission about the requested rate increase (Appendix E). It explains the Commission's action and will be mailed after this resolution is signed.

The Branch staff conducted a field investigation of SMC's service area and plant facilities in October 1985. Plant facilities inspected were in serviceable condition and water pressures taken at different points in the system were within the limits specified in the Commission's General Order 103, Rules Governing Water Service. The Kern County Department of Health, when contacted, stated that water quality meets the department's requirements.

Records show that service has not been consistent and at times unsatisfactory. Occasional water outages and low pressure conditions that have occurred at the higher elevations in the system during summertime for the past several years were the subject of Case 10950, filed February 13, 1981, which resulted in D.93584, dated October 6, 1981. SMC is in non-compliance with Ordering Paragraph No. (Order) 3 of that decision which requires that the 210,000 gallon storage tank in Tract 3491 be connected with the 150,000 gallon tank in Tract 3141 by means of a six-inch interconnection at an elevation which will allow free gravity flow between the two tanks. These two tracts comprise SMC's service area. SMC has installed a booster pump and replaced a well pump both which have significantly improved distribution of the existing water supply. SMC intends to file a petition for modification of the decision which would allow deviation from Order 3. The Branch believes that Order 3 is no longer needed and that D.93584 should be modified to reflect this.

Consistent with past Commission policy, the percent increase to SMC's flat rate or future metered rate customers is approximately equal within the limitations of rounding to the overall increase. Although presently there are no metered connections there is an existing metered rate schedule consisting of a minimum charge with a three-block quantity rate structure. The Branch believes that the existing minimum charge type of rate structure should be retained until enough metered information is available to make a proper rate design in agreement with current Commission policy. A comparison of present and the Branch's recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$5,100 or 64.2% which would increase estimated annual revenue from \$7,950 at present rates to \$13,050 at recommended rates contained in Appendix B. The Branch recognizes that this is a large percentage increase, however, SMC's new rates are still relatively low when compared to other water utilities in California. In addition, SMC had been operating at a loss for years. This increase will reduce the magnitude of the loss. For the typical flat rate customer there will be an increase in the monthly bill from 5.30 to \$8.70 or \$3.40.

The Commission's opinion, after investigation by the Branch is that:

- a. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
- b. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
- d. SMC is in non-compliance with the requirements of Ordering Paragraph No. 3 of D.93584, however, these requirements are no longer needed and SMC should file a petition for modification of the decision which would rescind the order.

THE COMMISSION FINDS that the increased rates hereby authorized are justified and that the present rates are, for the future, unjust and unreasonable.

IT IS RESOLVED that:

1. Authority is granted under Public Utilities Code Section 454 for Split Mountain Water Company to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedules Nos. 1 and 2R. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate schedules shall be the date of filing.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 5, 1986. The following Commissioners approved it:

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
Commissioners


JOSEPH E. BODOVITZ
Executive Director

APPENDIX A

SPLIT MOUNTAIN WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1986)

| Item | : Utility Estimated : | | : Branch Estimated : | | : Adopted : |
|---------------------------|-----------------------|-----------|----------------------|-----------|-------------|
| | : Present : | | : Requested : | | |
| | : Rates : | : Rates : | : Rates : | : Rates : | |
| Operating Revenue | \$ 7,950 | \$13,050 | \$ 7,950 | \$13,050 | \$13,050 |
| <u>Operating Expenses</u> | | | | | |
| Source of Supply | 240 | 240 | 240 | 240 | 240 |
| Purchased Power | 5,800 | 5,800 | 5,800 | 5,800 | 5,800 |
| Materials | 810 | 810 | 810 | 810 | 810 |
| Contract Work | 4,510 | 4,510 | 4,510 | 4,510 | 4,510 |
| Insurance | 800 | 800 | 800 | 800 | 800 |
| Accounting, Legal, etc. | 3,600 | 3,600 | 3,600 | 3,600 | 3,600 |
| General Expenses | 230 | 230 | 230 | 230 | 230 |
| Total Expenses | \$15,990 | \$15,990 | \$15,990 | \$15,990 | \$15,990 |
| Depreciation | 2,640 | 2,640 | 2,640 | 2,640 | 2,640 |
| Property Taxes | 450 | 450 | 450 | 450 | 450 |
| Taxes on Income | 200 | 200 | 200 | 200 | 200 |
| Total Deductions | \$19,280 | \$19,280 | \$19,280 | \$19,280 | \$19,280 |
| Net Revenue | (\$11,330) | (\$6,230) | (\$11,330) | (\$6,230) | (\$6,230) |
| <u>Average Rate Base</u> | | | | | |
| Average Plant | 92,138 | 92,138 | 92,138 | 92,138 | 92,138 |
| Average Depr. Res. | 39,210 | 39,260 | 39,210 | 39,260 | 39,260 |
| Net Plant | 52,928 | 52,878 | 52,928 | 52,878 | 52,878 |
| Less: Advances | 63,720 | 63,720 | 63,720 | 63,720 | 63,720 |
| Contributions | 0 | 0 | 0 | 0 | 0 |
| Plus: Working Cash | 0 | 0 | 0 | 0 | 0 |
| Mats. & Suppls. | 0 | 0 | 0 | 0 | 0 |
| Rate Base | 0 | 0 | 0 | 0 | 0 |
| Rate of Return | Loss | Loss | Loss | Loss | Loss |

APPENDIX B
(Page 1)

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tracts Nos. 3141, 3491 and vicinity, located near Wofford Heights,
Kern County.

RATES

| Quantity Rates | <u>Per Meter Per Month</u> | |
|--|----------------------------|-----|
| First 900 cu.ft. or less | \$ 8.70 | (1) |
| Next 3,100 cu.ft., per 100 cu.ft. | 0.495 | ! |
| Over 4,000 cu.ft., per 100 cu.ft. | 0.263 | (1) |
| Minimum Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 8.70 | (1) |
| For 3/4-inch meter | 11.25 | ! |
| For 1-inch meter | 16.20 | ! |
| For 1-1/2-inch meter | 27.70 | ! |
| For 2-inch meter | 35.90 | (1) |

The Minimum Charge will entitle the customer
to the quantity of water which that minimum
charge will purchase at the Quantity Rates.

APPENDIX B
(Page 2)

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Tracts Nos. 3141, 3491, and vicinity, near Wofford Heights, Kern County.

RATES

| | <u>Per Service Connection Per Month</u> | |
|---|---|-----|
| For a single-family residential unit, including premises | \$8.70 | (I) |
| For each additional single-family residential unit on the same premises and served from the same service connection | 6.35 | (I) |

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one-inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

(END OF APPENDIX B)

APPENDIX C

COMPARISON OF RATES

A comparison of present and Branch's recommended rates for metered service is shown below:

| <u>METERED SERVICE</u> | | <u>Per Meter Per Month</u> | | <u>Percent Increase</u> |
|--------------------------------|---------------------------------|----------------------------|--------------------------|-------------------------|
| Quantity Rates: | | <u>Present Rates</u> | <u>Recommended Rates</u> | |
| First | 500 cu.ft., or less | \$ 5.30 | \$ 8.70 | |
| Next | 3,100 cu.ft., per 100 cu.ft. .. | 0.30 | 0.495 | |
| Over | 4,000 cu.ft., per 100 cu.ft. .. | 0.16 | 0.263 | |
| Minimum Charges: | | | | |
| For | 5/8 x 3/4-inch meter | 5.30 | 8.70 | |
| For | 3/4-inch meter | 6.85 | 11.25 | |
| For | 1-inch meter | 9.85 | 16.20 | |
| For | 1-1/2-inch meter | 16.85 | 27.70 | |
| For | 2-inch meter | 21.85 | 35.90 | |
| Uniform Percent Increase | | | | 64.2 |

A monthly bill comparison for a 5/8 x 3/4-inch meter is shown below:

| <u>Usage</u> <u>100 cu.ft.</u> | <u>Present Bills</u> | <u>Recommended Bills</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|-----------------------------------|----------------------|--------------------------|------------------------|-------------------------|
| 0 | \$ 5.30 | \$ 8.70 | \$ 3.40 | 64.2 |
| 3 | 5.30 | 8.70 | 3.40 | 64.2 |
| 5 | 5.30 | 8.70 | 3.40 | 64.2 |
| 10 | 5.60 | 9.19 | 3.59 | 64.1 |
| 20 | 8.60 | 14.14 | 5.54 | 64.4 |
| 30 | 11.60 | 19.09 | 7.49 | 64.6 |
| 40 | 14.60 | 24.04 | 9.44 | 64.7 |
| 50 | 16.20 | 28.67 | 10.47 | 64.6 |
| 75 | 20.20 | 33.25 | 13.05 | 64.6 |
| 100 | 24.20 | 39.83 | 15.63 | 64.6 |

| <u>Flat Rate Service</u> | <u>Per Service Per Year</u> | | <u>Percent Increase</u> |
|---|-----------------------------|--------------------------|-------------------------|
| | <u>Present Rates</u> | <u>Recommended Rates</u> | |
| 1. For a single-family residential unit, including premises | \$5.30 | \$8.70 | 64.2 |
| a. For each additional single-family residential unit on the same premises and served from the same service connection | 3.85 | 6.35 | 64.93 |

APPENDIX D

ADOPTED QUANTITIES
(1986 Test Year)

Name of Company: Split Mountain Water Company

| | |
|---------------------------|------|
| Net-to-Gross Multiplier: | 0.0 |
| Federal Tax Rates: | 0.0 |
| State Tax Rate: | Min. |
| Local Franchise Tax Rate: | 0.0 |
| Business License: | 0.0 |

| <u>Offset Items</u> | <u>1986</u> |
|---|-------------|
| 1. <u>Purchased Power:</u> Southern California Edison Company | |
| Total Cost | \$15,796 |
| kWh | 72,400 |
| Eff. Sch. Date SCE PA-1 | 7/1/85 |
| \$/kWh used | 0.07595 |
| 2. <u>Purchased Water:</u> | None |
| 3. <u>Pump Tax-Replenishment Tax:</u> | None |
| 4. <u>Taxes Other Than Income:</u> Ad Valorem Taxes | \$450 |
| 5. <u>Contract Work:</u> | |
| Operation and Maintenance | \$4,510 |
| Office Salaries - Acctg. & Legal | 3,600 |
| Total | \$8,110 |
| 6. <u>Adopted Flat Rate Services:</u> | |
| For a single-family residential unit, including premises | 125 |
| For each additional single-family residential unit on the same premises and served from the same service connection | 0 |

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING THE REQUEST FOR A 64.2% RATE INCREASE BY SPLIT MOUNTAIN WATER COMPANY

Dear Customer:

After considering all factors presented, the Commission has authorized Split Mountain Water Company a general rate increase producing 64.2% additional revenue. For the typical flat rate residential customer this will mean an increase in the monthly 1986 bill from \$5.30 to \$8.70 or \$3.40.

In establishing rates, the Commission's role is twofold. The rates to the ratepayer must be kept as low as possible, and at the same time, set at a level to cover reasonable operating expenses. You may be assured that the utility's request was thoroughly reviewed and evaluated by the Commission before this change in rates was granted.

Eight letters were received protesting the increase. All the letters complained of poor service offered by the water company.

In an effort to improve service, Split Mountain has retained nearby Arden Water Company to manage and operate the system. In fact, the major reason for the increase is to pay the contract costs for Arden's services. Arden is an efficient and well run water company which should be able to provide timely response to emergencies and make an overall improvement in service. Split Mountain also plans to meter all the customers which will have the effect of improving the water supply through conservation.

If anyone wishes further details on the rate increase, please feel free to contact Richard Finnstrom at (213) 620-2588.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch