

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

X-5

Copy for:

✓
Orig. and copy
to Executive Director

RESOLUTION NO. W-3319

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: May 28, 1986

Director

Numerical File

Alphabetical File

Accounting Officer

R E S O L U T I O N

HAVASU WATER COMPANY (HWC). ORDER AUTHORIZING A
GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL
REVENUES OF \$21,780 OR 80.6% IN 1986 AND A FURTHER
INCREASE OF \$16,880 OR 33% IN 1987.

HWC, by draft advice letter furnished to the Water Utilities Branch on September 9, 1985, requested authority under Section VI of General Order No. 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$21,780 or 99.5% in 1986 and \$34,060 or 71.2% in 1987. HWC estimates that 1986 gross revenues of \$21,890 at present rates would increase to \$43,670 at proposed rates and produce a net loss in 1986. HWC's proposed rates for 1987 would increase revenues from \$47,830 (based on 1986 proposed rates including an amount for customer growth) to \$81,890 and produce an 11.25% rate of return on rate base.

HWC currently serves about 86 metered customers, one flat rate customer, and receives wheeling charges for the use of its pumping and transmission facilities to deliver water to a 22-lot mobile home subdivision (Bale's Mobile Home Park). The flat rate customer is a mobile home subdivision (Havasu Mobile Estates) located in Tract 8284, with 113 services and will be addressed later in the discussions on revenue estimates and rate design. HWC serves in an area near Havasu Landing, about 28 miles south of Needles, San Bernardino County.

The present metered rates have been in effect since February 19, 1966 pursuant to Decision (D.) 68790. The wheeling charges were established in D.85-04-056 and have been in effect since June 22, 1985. The flat rate for Havasu Mobile Estates is by special agreement and not a Commission authorized tariff.

The Branch made an independent analysis of HWC's summaries of earnings. Appendices A1 and A2 show HWC's and Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test years 1986 and 1987. Appendix A1 and Appendix A2 show differences between the Branch and HWC in revenues, operating expenses, rate base, and rate of return.

The Branch's estimate of operating revenues at proposed rates is higher than HWC's in test years 1986 and 1987 by \$6,310 and \$2,790, respectively. The differences in both years relate to differences in the estimates of the number of metered mobile home customers and the water consumption per service connection in Tract 8284. The 113 mobile homes in Tract 8284 represent over 50% of the active service connections in the system.

HWC's revenue estimates were developed in 1985 and assume that Tract 8284 is served by two six-inch master meters. Although HWC did not explicitly forecast water consumption per mobile home park customer per month, its revenue estimates imply a consumption of 20.8 Ccf (1Ccf = 100 cubic-feet). After it developed its estimates of revenues, HWC decided to comply with a long standing order (D.68790, dated March 30, 1965) to meter all of its customers and informed the Branch in January 1986 that it was planning to individually meter the 113 mobile home customers in Tract 8284 and would complete the meter installations by the end of 1986. Typical residential meters are 5/8 by 3/4 inch. Currently, the owner of this mobile home subdivision pays a flat rate of \$1,000 per month to the utility for the water used by its residents. As mentioned earlier, this flat rate is by special agreement and not a Commission authorized tariff.

The Branch's estimates of revenues assume that the 113 mobile home customers in Tract 8284 are individually metered. The Branch believes that HWC's implied water consumption estimate of 20.8 Ccf per customer per month is excessive and based its estimate of 12 Ccf per month on recorded information for a similar mobile home subdivision in a desert type area. Although the Branch has a lower estimate of consumption, its revenue estimates are higher because the service charge revenue from the 113 individual meters is greater than the service charge revenue from the two master meters proposed by HWC.

The differences in estimates of operating expenses for test years 1986 and 1987 are in purchased water, purchased power, material expenses, contract work, accounting and legal, office supplies, vehicle expenses, depreciation expense, and property taxes.

HWC's estimates of purchased water are significantly higher than the Branch's, \$13,980 versus \$11,180 in 1986, and \$14,830 versus \$11,610 in 1987. The differences result from the different estimates of water consumption per customer in Tract 8284 discussed earlier.

The differences in the estimates of purchased power necessary to operate the water pumps are due to different estimates of water consumption per customer and the Branch's use of the latest power rates.

The major difference in the estimates of material expenses results from the differences in HWC's and the Branch's review of the recorded information. HWC estimated these expenses by analyzing the trend of recorded costs for the five years, 1980-1984. The Branch notes that prior to a new manager taking over in 1983, HWC was run much less efficiently than it is now. Therefore, the Branch for its estimates placed more emphasis on the last three years (1982-1984) of recorded costs, which it believes more accurately reflect current system operations.

The Branch's estimates of contract work are lower than HWC's. The Branch had later recorded data on fees for contracted water quality tests which are required and also on fees for standby construction equipment and operator.

The major difference in the estimates of accounting and legal expenses is due to the Branch excluding from its estimates a \$75 per month retainer from HWC's regulatory consultant. The retainer is separate from the consultant's fee for preparing this rate increase request. Although the Branch included rate case fees in its estimates, it believes this retainer is unnecessary and unreasonable for such a small cash-flow-poor water utility like HWC.

The Branch's estimates of office supplies are lower than HWC's. The Branch's estimates are based on a three-year average of recorded expenses, adjusted for nonrecurring expenses. HWC's estimates were not supported by workpapers.

The Branch's estimates of vehicle expenses are significantly lower than HWC's \$1,390 versus \$2,350 in 1986 and \$1,450 versus \$2,440 in 1987. The differences in estimates are due to different methods of estimating. The Branch estimated expenses by assuming a reasonable amount of miles driven under normal operating conditions (3 inspectional trips daily around the tract and two trips per month to town for parts) multiplied by an allowance of \$0.30 per mile, which the Branch believes to be a reasonable mileage allowance for this utility. HWC's estimates, are based on an average of five years recorded expenses. The Branch believes that vehicle expense estimates for such a small system should be based on a reasonable number of miles of vehicle use and not recorded vehicle expenses which may be influenced by the utility's bookkeeping practices.

The Branch's depreciation expenses are lower than HWC's because of differences in the estimates of utility plant, depreciation reserve, advances, contributions and working cash. The differences result from differences in utility plant and contribution estimates described later in the rate base discussion.

The differences in property tax estimates between the Branch and HWC are due to later information available to the Branch.

The Branch's estimates of rate base are lower than HWC's because of differences in the estimates of utility plant, depreciation reserve, advances, contributions and working cash.

As shown in Appendices A1 and A2, HWC's estimates of utility plant, advances, and contributions are significantly higher than the Branch's for several reasons. Firstly, HWC included in its test year estimates all major plant additions planned for the next five years. These additions were addressed in D.85-04-056 and relate to a proposed 96-lot mobile home tract. For ratemaking, the Branch excluded from its estimates planned additions that have not already been started but believes that HWC should be allowed to file by advice letter for rate increases to offset the costs of the added plant only after it is constructed. The second area of difference is because HWC did not make the adjustments to its book of accounts for utility plant, advances, and contributions related to the acquisition of the Tract 8284 water facilities as ordered by D.85-04-056; the Branch's estimate conforms with the decision.

Finally, as mentioned previously in the discussion on revenues, HWC in preparing its estimates for this rate increase request considered Tract 8284 to be served by two master meters but now plans to individually meter the customers in this tract. The Branch's estimates assume individual metering. In summary, the Branch believes its estimates are in accord with past Commission decisions and when compared to those of HWC, better reflect the planned construction for the system.

The differences in depreciation reserve estimates are due to differences in depreciation expense estimates.

The differences in working cash estimates result from differences in operating expense estimates.

HWC was informed about the Branch's differing estimates of revenues, operating expenses, rate base, and rate of return; and has stated that it accepts the Branch's estimates.

The summaries of earnings submitted with HWC's rate increase request show a net loss on rate base in 1986 and a 12.25% rate of return on rate base in 1987. The Branch's recommended summaries of earnings show a net loss in 1986 and an 11% return on rate base in 1987. The 11% rate of return is the midpoint of the rate of return range (10.75% to 11.25%) recommended by the Financial Branch of the Evaluation and Compliance Division and in the Branch's view is reasonable for HWC.

A notice of the proposed rate increase was mailed to each customer on October 23, 1985. Nineteen customers protested the rate increase. Thirteen letters complained that the mobile home customers in Tract 8284 (Havasu Mobile Estates) were unmetered and wasted water, four complained about poor service (pressure and leaks), and two about high rates. The Branch has drafted a letter of reply to customers who responded. It explains the Commission's actions and will be mailed after the resolution is signed. The draft letter is attached as Appendix E.

A field investigation of HWC's system was made on November 13 and 14, 1985 by an engineer from the Branch. Visible portions of the water system were inspected, pressures checked, and methods of operation reviewed. Also, interviews were held with employees and customers. The customers interviewed complained about the many leaks in the system and about the unmetered users.

The investigation of HWC's facilities indicated that pressures at the time checked were within the specifications of the Commission's General Order No. 103, Rules Governing Water Service. According to the San Bernardino County Health Department, water quality meets standards. However, during the investigation the Branch's engineer discovered six major leaks, a pressure problem at the hydro-pneumatic tank, an exposed 6-inch main, a clogged intake line from Lake Havasu, a broken 4-inch service meter, and an improperly installed service meter. Subsequent to the Branch's investigation, HWC corrected these system deficiencies except for one leak for which the utility plans to fix by replacing 60 feet of main. As a result of these corrective actions by HWC, the Branch now concludes that service is adequate.

HWC's present minimum rate structure for metered services has been converted to

the Commission's model rate structure with a service charge, a 300 cubic feet first block and an inverted tail block. For the typical residential customer this will mean an increase in the 1986 monthly bill from \$8.50 to \$17.40 and the 1987 monthly bill from \$17.40 to \$23.10. A comparison of present and Branch recommended rates is shown in Appendix C.

As noted earlier, HWC in compliance with D.68790 is in the process of metering the individual mobile home customers in Tract 8284 and plans to complete the project by the end of 1986. The owner of the mobile subdivision, Tract 8284, presently pays a flat charge for all customers in the tract at a rate of \$1,000 per month. Since each customer will not be individually billed for measured water consumption until HWC installs the water meters, the Branch recommends that HWC bill each customer in Tract 8284 the monthly service charge until the tract is fully metered. This would provide HWC with interim revenues, which would substitute for the flat rate payment presently being made by the owner of the mobile home subdivision. Upon completion of the installation of water meters in Tract 8284, HWC should send a notice to customers stating that they are to be billed for measured water consumption under the rate schedule adopted in this resolution and shown in Appendix B.

The Branch recommends that the Commission authorize a two-step increase of \$21,780 or 80.6% in 1986 and of \$16,880 or 33% in 1987. At rates contained in Appendix B, these increases would increase the estimated annual revenues from \$27,010 at present rates to \$48,790 in 1986 and to \$68,100 in 1987. The Branch recognizes that these are large increases for customers, however it has been 20 years since the metered rates have been last increased. With these increases the utility would still be operating at a loss in 1986, however in 1987 the utility should have an 11% rate of return on its rate base.

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

- a. The Branch's recommended Summary of Earnings statements (Appendices A-1 and A-2) are 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 recommendations are reasonable and should be adopted.
- d. HWC should be allowed to file by advice letters for rate base offsets for plant additions required to serve a new 96-lot mobile home tract after the plant facilities have been dedicated to public utility service.
- e. Upon completion of meter installation work in Tract 8284, HWC shall notify customers in this tract that they will be billed for measured water consumption under the metered rate schedule adopted in this resolution, beginning the first month following the completion of the work. Prior to sending the notice, HWC shall offer proof to the Branch that the work has been completed. A copy of the notification shall be furnished to the Commission for verification by the Water Utilities Branch.

THE COMMISSION FINDS that the increased rates hereby authorized are justified and 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 Havasu Water Company to file an advice letter incorporating the Summaries of Earnings and the revised rate schedule attached to this resolution as Appendices A1, A2, and B, and concurrently to cancel the presently effective rate schedule. Such filing shall comply with General Order No. 96-A.
2. Customers in Tract 8284 shall be billed for measured water consumption under the metered rate schedule adopted herein only after Havasu Water Company has installed all meters required in the tract and has fully complied with the customer and Commission notification specified in Paragraph (e) above.
3. Havasu Water Company is authorized to file advice letters, with appropriate workpapers, requesting rate increases to offset the reasonable costs for plant additions required to serve the new 96-lot mobile home tract addressed in D.85-04-056. Such filings shall be no more frequent than once per year, starting from the effective date of this resolution.
4. The effective date of the revised rate schedule shall be the date of the filing.
5. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 28, 1986. The following Commissioners approved it:

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

Howard A. Sarasohn
Howard A. Sarasohn
Acting Executive Director

APPENDIX A1

HAVASU WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1936)

Item	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	
<u>Total Oper. Revenues</u>	\$ 21,890	\$ 43,670	\$ 27,010	\$ 49,980	\$ 48,790
<u>Operating Expenses</u>					
Purchased Water	13,980	13,980	11,180	11,180	11,180
Purchased Power	10,370	10,370	6,790	6,790	6,790
Material Expenses	7,670	7,670	7,260	7,260	7,260
Contract Work	8,040	8,040	7,240	7,240	7,240
Employee Labor	4,740	4,740	4,740	4,740	4,740
Insurance	60	60	60	60	60
Accounting, Legal	6,800	6,800	6,090	6,090	6,090
Office Supplies	2,140	2,140	1,980	1,980	1,980
Vehicle Expenses	2,350	2,350	1,390	1,390	1,390
<u>Total Expenses</u>	<u>56,150</u>	<u>56,150</u>	<u>46,730</u>	<u>46,730</u>	<u>46,730</u>
Depreciation	5,800	5,800	3,550	3,550	3,550
Property Taxes	820	820	770	770	770
Other Taxes	970	970	970	970	970
Income Taxes	200	200	200	200	200
<u>Total Deductions</u>	<u>63,940</u>	<u>63,940</u>	<u>52,220</u>	<u>52,220</u>	<u>52,220</u>
Net Revenue	(42,050)	(20,270)	(25,210)	(2,240)	(3,430)
<u>Average Rate Base</u>					
Utility Plant	261,230	261,230	153,100	153,100	153,100
Depreciation Reserve	35,430	35,430	34,750	34,750	34,750
Net Plant	225,800	225,800	118,350	118,350	118,350
Less: Advances	68,340	68,340	0	0	0
Contribution	66,000	66,000	33,195	33,195	33,195
Plus: Working Cash	7,330	7,330	6,290	6,290	6,290
Matls. & Suppls.	500	500	500	500	500
Rate Base:	<u>99,290</u>	<u>99,290</u>	<u>91,945</u>	<u>91,945</u>	<u>91,945</u>
Rate of Return	Loss	Loss	Loss	Loss	Loss

APPENDIX A2

HAVASU WATER COMPANY

SUMMARY OF EARNINGS
(Estimated Year 1987)

Item	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	
<u>Total Oper. Revenues</u>	\$ 47,830	\$ 81,890	\$ 51,220	\$ 84,680	\$ 68,100
<u>Operating Expenses</u>					
Purchased Water	14,830	14,830	11,610	11,610	11,610
Purchased Power	10,820	10,820	7,000	7,000	7,000
Material Expenses	7,980	7,980	7,540	7,540	7,540
Contract Work	8,360	8,360	7,490	7,490	7,490
Employee Labor	4,940	4,940	4,940	4,940	4,940
Insurance	60	60	60	60	60
Accounting, Legal	6,800	6,800	6,330	6,330	6,330
Office Supplies	2,230	2,230	2,050	2,050	2,050
Vehicle Expenses	2,440	2,440	1,450	1,450	1,450
<u>Total Expenses</u>	<u>58,460</u>	<u>58,460</u>	<u>48,470</u>	<u>48,470</u>	<u>48,470</u>
Depreciation	5,890	5,890	3,830	3,830	3,830
Property Taxes	830	830	790	790	790
Other Taxes	990	990	990	990	990
Income Taxes	200	3,640	200	7,380	3,247
<u>Total Deductions</u>	<u>66,370</u>	<u>69,810</u>	<u>54,280</u>	<u>61,460</u>	<u>57,327</u>
Net Revenue	(18,540)	(12,080)	(3,060)	23,220	10,773
<u>Average Rate Base</u>					
Utility Plant	264,360	264,360	161,400	161,400	161,400
Depreciation Reserve	43,250	43,250	38,440	38,440	38,440
Net Plant	221,110	221,110	122,960	122,960	122,960
Less: Advances	66,600	66,600	0	0	0
Contribution	63,990	63,990	32,195	32,195	32,195
Plus: Working Cash	7,600	7,600	6,530	6,530	6,530
Matls. & Suppls.	500	500	500	500	500
Rate Base:	<u>98,620</u>	<u>98,620</u>	<u>97,795</u>	<u>97,795</u>	<u>97,795</u>
Rate of Return	Loss	12.25%	Loss	23.74%	11.00%

APPENDIX B

Havasu Water Co.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tracts Nos. 6493, 6494, 6595, 5963, 8284 and vicinity - and a 40-acre parcel about 3000 feet to the North, located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

RATES

	<u>Per Meter Per Month</u>	
		<u>Effective*</u> <u>6/1/87</u>
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$12.80 (N)	\$ 17.00 (I)
For 3/4-inch meter.....	14.00	18.60
For 1-inch meter.....	19.00	25.30
For 1-1/2-inch meter.....	25.00	33.20
For 2-inch meter.....	35.00	46.50
For 4-inch meter.....	75.00 (N)	100.00 (I)

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	0.45 (N)	0.60 (I)
Over 300 cu.ft., per 100 cu.ft.....	0.65 (N)	0.86 (I)

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

SPECIAL CONDITION:

1. Bale's Mobile Home Park, having their own water rights to Colorado river water, shall receive a credit of \$0.32/Ccf per month pursuant to D.85-04-056. (C)
2. Customers in Tract No. 8284 shall be billed for only the monthly service charge until all customers in the tract are individually metered by the utility. (C)

* A 3% step-increase designed to increase rate of return from a loss to 11.0%, the authorized return.

APPENDIX C

Havasu Water Co.

COMPARISON OF RATES

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

METERED SERVICE

Quantity Rates:

	Present Rates	Per Meter Per Month	
		Recommended Rates	
		(1986)	(1987)
First 800 cu.ft., or less.....	\$ 8.50	-	-
Next 1200 cu.ft., per 100 cu.ft.....	0.45	-	-
Over 2000 cu.ft., per 100 cu.ft.....	0.35	-	-

Minimum Charge:

For 5/8 x 3/4-inch meter.....	\$ 8.50	-	-
For 3/4-inch meter.....	11.00	-	-
For 1-inch meter.....	14.00	-	-
For 1-1/2-inch meter.....	21.00	-	-
For 2-inch meter.....	27.00	-	-

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	\$ 0.45	\$ 0.60
Over 300 cu.fr., per 100 cu.ft.....	0.65	0.86

Monthly Service Charge:

For 5/8 x 3/4-inch meter.....	\$12.80	\$ 17.00
For 3/4-inch meter.....	14.00	18.60
For 1-inch meter.....	19.00	25.30
For 1-1/2-inch meter.....	25.00	33.20
For 2-inch meter.....	35.00	46.50
For 4-inch meter.....	75.00	100.00

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

Usage 100 cu.ft.	Present Bill	1986		1987	
		Recommended Bill	Percent Increase	Recommended Bill	Percent Increase
0	\$ 8.50	\$12.80	50.6%	\$17.00	32.8%
3	8.50	14.15	66.5	18.80	32.9
8	8.50	17.40	104.7	23.10	32.8
10	9.40	18.70	98.9	24.82	32.7
20	13.90	25.20	81.3	33.42	32.6
30	17.40	31.70	82.2	42.02	32.6
50	24.40	44.70	83.2	59.22	32.5

APPENDIX D

Page 1

ADOPTED QUANTITIES
Test Years 1986 and 1987

Name of Company: Havasu Water Company

Net-to-Gross Multiplier:	1.494
Federal Tax Rates:	15%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0.0%
Business License:	0.0
Uncollectible Rates:	0.0

<u>Offset Items</u>	<u>1986 Amount</u>	<u>1987 Amount</u>
---------------------	--------------------	--------------------

1. Purchased Power (Electric)

Total Production - Ccf	34,775	36,109
kWh/Ccf	2.07	2.07
kWh	71,984	74,746

Southern California Edison Company

	PA-1	PA-1
Schedule PA-1	PA-1	PA-1
Eff. Sch. Date	6/1/85	6/1/85
\$/kWh Used	0.07595	0.07595
Commodity Cost (\$)	\$ 5,470	5,680
Service Charge: 110 Hp @ \$12/yr	\$ 1,320	\$ 1,320
Total Cost (\$)	\$ 6,790	\$ 7,000

2. Purchased Water:

Total Cost	\$11,180	\$11,610
Acre-Feet	79.83	82.89
Unit Costs/Ac-Ft:		
San Bernardino Valley M.W.D.	\$ 130	\$ 130
Colorado River Agency	\$ 10	\$ 10

3. Other Expenses

Employee Labor	\$ 4,740	\$ 4,940
Assessed Valuation	75,930	75,930
Tax Rate, %	1,014%	1,040%
Ad Valorem Taxes	770	790

APPENDIX D
Page 2

ADOPTED SERVICES BY METER SERVICE
(all classes)
Test Years 1986 and 1987

<u>Meter Size</u>	<u>Number</u>	
5/8 x 3/4-inch	188	198
3/4-inch	8	8
1-inch	1	1
1-1/2-inch	2	2
2-inch	0	0
4-inch	1	1
	<u>200</u>	<u>210</u>

Metered Water Sales Used to Design Rates:

	<u>Range - Ccf</u>	<u>1986 Usage - Ccf</u>	<u>1987 Usage - Ccf</u>
Block 1	0 - 3	5,731	5,954
Block 2	3	<u>22,069</u>	<u>22,936</u>
		<u>27,820 Ccf</u>	<u>28,890 Ccf</u>

Flat Rate Service:

None

None

APPENDIX D
Page 3

ADOPTED TAX CALCULATIONS 1/

: In. : :No.:	Item	: 1986 :		: 1987 :	
		: Adopted Rates :		: Adopted Rates :	
		: State Tax :	: FIT :	: State Tax :	: FIT :
1	Operating Revenues	\$48,790	\$48,790	\$68,100	\$68,100
2	O&M Expenses	46,410	46,410	48,470	48,470
3	Taxes Other Than Income	1,740	1,740	1,780	1,780
4	Depreciation	3,550	3,550	3,830	3,830
5	Interest	-	-	-	-
6	State Income Tax	-	200	-	1,346
7	Subtotal Deductions	51,700	51,900	54,080	55,426
8	Net Taxable Income for State Tax	Loss	Loss	14,020	0
9	State Tax (9.6%)	200	0	1,346	0
10	Net Taxable Income for FIR	-	Loss		12,674
11	Federal Income Tax (15.0)	-	0		1,901
12	Investment Tax Credit	-	0		0
13	Total FIT	-	0		1,901
15	Total Income Tax	-	\$200		\$3,247

1/ Corporation

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN THE COMMISSION REGARDING THE REQUEST FOR A RATE INCREASE BY HAVASU WATER COMPANY, INC.

Dear Customer:

Havasu Water Company has requested to increase your rates for water service by 99.5% in 1986 and by an additional 71.2% in 1987. The Commission, after considering all factors presented, has authorized the utility an 80.6% increase in 1986 and a 33.0% increase in 1987. For a typical customer this will mean an increase in the monthly bill from \$8.50 to \$17.40 in 1986 and from \$17.40 to \$23.10 in 1987.

The Commission is aware that the increases granted are large. However this utility has been operating at a loss for many years and has not had an increase in metered rates for almost twenty years. Even with the increase, the utility will make no profit in 1986, but should make what the Commission considers a reasonable profit in 1987. 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, rates must be set so as to cover operating expenses and provide a fair return (profit) on the utility's investment in its water system. You may be sure that the utility's request was thoroughly reviewed and evaluated by the Commission's staff before this change in rates was granted.

A notice of the proposed rate increase was mailed to each customer on October 23, 1985. A total of nineteen customer protests were received concerning the proposed increase. Thirteen letters complained about wasted water in Havasu Mobile Estates. Several customers complained about pressure and leak problems.

In response to recommendations from the Commission's staff, the utility has started a program of upgrading its water system and has indicated that it will meter all the customers in Havasu Mobile Estates by the end of 1986.

If anyone wishes further details on the rate increase, please feel free to contact Richard Finnstrom at (213) 620-2588 or Gary Loo at (213) 620-2002.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch