W-1

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

_______ Orig. and copy to Executive Director

_______ Director
_______ Numerical File
_______ Alphabetical File
_______ Accounting Officer

RESOLUTION NO. W-3329

EVALUATION & COMPLIANCE DIVISION
BRANCH/SECTION: Water Utilities
DATE: August 6, 1986

RESOLUTION

PARK WATER COMPANY, VANDENBERG WATER DIVISION (PWC). ORDER AUTHORIZING AN OFFSET RATE INCREASE PRODUCING $65,445 OR 7.26% ADDITIONAL ANNUAL REVENUE.

By Advice Letter No. 133, filed May 9, 1986, PWC requests authority under Section VI of General Order 96-A, and Section 454 of the Public Utilities Code to increase rates to offset: (1) a $20,400 increase in purchased power costs and (2) a $45,045 increase due to an undercollection in the purchased power balancing account. PWC serves about 2,026 metered customers in its Vandenberg Water Division, which is located three miles north of Lompoc, Santa Barbara County.

PWC had initially requested an offset increase of $89,900 or 9.98% in Advice Letter No. (A.L.) 130-W, filed September 13, 1985. Subsequently, PWC revised its operations causing a reduction in the amount of power required for pumping and filed A.L. 133 for a reduced request of $65,445 or 7.26%.

The present rates became effective on January 1, 1984 pursuant to Advice Letter No. 124 which requested a rate decrease. The last general rate increase became effective on November 10, 1981 pursuant to Decision 93687 in which the Commission found the rates of return on rate base of 11.96% for 1980, 12.04% for 1981, and 12.19% for 1982 reasonable, with a 13.5% return on equity. This offset increase will not result in a rate of return greater than last authorized.

Since the increase is caused by changes in expenses directly related to water consumption, it is applied to the quantity blocks for metered customers. Rates for all quantities were increased by $0.102/Ccf.

The Water Utilities Branch (Branch) has reviewed the latest pump efficiency tests and found them satisfactory.

PWC has given public notice of the request for increase by publishing in the local newspaper on September 22, 1985. Two protests were received. One was from a retired customer, the other from the Vandenberg Community Services District (VCSD).

The retired customer questioned the need for the increase in light of lower energy costs and interest rates. While it is true that energy (oil) costs and interest rates have declined in recent months, it is also true that PWC's present water rates assume electric power from Pacific Gas and Electric Company (PG&E) is being purchased at the rates effective in January 1984. PG&E's power rates are higher now than they were then. This follows because PG&E's costs to provide power are dependent not only on its fuel oil costs but also on other costs related to items like labor or investment in plant.

VCSD protested stating that the portion of the increase related to the purchased power balancing account was not warranted at this time. VCSD bases its view on the assumption that wet weather and greater snow cover in Northern California will result in lower PG&E power rates due to PG&E's greater reliance on hydro-sources to produce power. These lower power rates would then cause the undercollection in the balancing account to be reduced (see discussion below). In addition, VCSD states that current tax proposals should reduce corporate taxes significantly and improve PWC's cash flow and earnings.

A balancing account is a bookkeeping procedure which ensures that a utility can track and recover the actual costs of certain expenses such as purchased power, over which it has no control. At the same time the balancing account ensures that customers will only pay in rates the actual amount needed to cover increases in these expenses.

To maintain a balancing account, a specific utility expense change, such as an increase in purchased power, is recorded along with revenues intended to equal or offset the expense increases. If, on an ongoing basis, revenues associated with the expense increase do not match actual expense increases, the utility's balancing account is said to be in an undercollected state, and the utility is not recovering its costs. A balancing account is said to be overcollected when on an ongoing basis revenues exceed expenses and the utility is recovering more than its costs. In either instance, rates are adjusted up or down to eliminate the build-up of the over or undercollection.

In general, water utility balancing accounts are in the undercollected state because expense increases tend to occur faster than the necessary related rate increases to keep up with them. Under current Commission policy for water utility balancing accounts, over or undercollections exceeding 2% of total operating revenues are to be amortized in the form of a rate decrease or increase at the time of the next rate change. In this case, PWC's undercollection is about 5%. This rather large balance resulted because PWC has not had a rate adjustment since January 1, 1984. Also, PG&E power rates have increased since that time.

The Branch believes that PWC should amortize its balancing account undercollection now because the undercollection will continue to grow until power rates are reduced, and it is not certain that they will be reduced. The Branch believes that VCSD's suggestion of increased earnings for PWC resulting from new tax proposals should not be addressed in the offset rate process because it was not designed for that purpose. To the extent that the new tax laws significantly impact PWC's earnings, the Commission will address this when it occurs. It should be noted that PWC's current rate of return on rate base is about 10.6%. This compares to PWC's authorized return of 12.09% on rate base.