



The summary of earnings submitted with MWC's rate increase request shows a return of 3.10% at proposed rates, while the Branch's analysis shows a return of 2.84% at proposed rates. This rate of return, although lower than the 10.25% to 10.75% rate of return range recommended by the Accounting and Financial Branch of the Evaluation and Compliance Division for 100% equity water companies, results in MWC being granted the full rates it requested. The authorized rate of return in the last rate case is generally used to determine whether a utility's earnings are excessive when the Commission is considering granting rate relief for offsettable items such as purchased power. Therefore, the Branch recommends the Commission find a rate of return on rate base not exceeding 10.5% to be reasonable for the purpose of earnings tests for MWC in future offset requests.

MWC was informed of the Branch's view of its summary of earnings and has stated that it accepts the Branch's estimates.

Notice of the proposed rate increase was mailed to all customers on September 2, 1986. Two customer protests to the amount of the increase have been received, one from a residential customer and the second from the High Valleys Water District. The District's protest stems from the fact that MWC proposed to charge it a rate \$0.10 per Ccf (hundred cubic feet) higher than that for other metered customers.

The District purchases about 1,500 Ccf per month from MWC through a six-inch meter and pumps it about 12 miles and 1,200 feet vertically to its own distribution system. MWC's rates to the District were initially established by a contract filed with the Commission in 1972. At that time, the District's rates were set at a level approximately 20% higher than rates to other MWC customers. The District was switched to MWC's general metered rate structure by Resolution No. W-2646 in 1980 and the differential thereby eliminated. MWC now proposes to reinstate the differential to reflect the higher costs of providing water to the District.

MWC has provided a study showing that even at its proposed \$0.10 per Ccf differential, the District does not carry its proper share of the costs of providing service. Because the District places extreme peak demands on the system by drawing large volumes of water at very high flow rates and infrequent intervals, MWC has had to drill two additional wells since 1980 and install associated pumps and mains, construct greater storage capacity, and pay electric power demand charges on the pumps. MWC states that these additional facilities were needed solely to meet the water supply needs of the District. The depreciation charges alone on the \$97,635 in additional plant amount to more than \$2,900 annually, or about \$0.17 per Ccf spread over the District's annual water usage. The Branch believes that reestablishing the differential in quantity rates as proposed by MWC is justified by the additional costs to serve the District.

The Branch has drafted a letter to the District and another to the individual customer who protested the increase. These letters explain the Commission's action and will be mailed after this resolution is approved. The draft letters are attached as Appendix E.

A field investigation of MWC's system was made on October 28, 1986 by a member of the Branch. Visible portions of the water system were inspected, customers

and company employees were interviewed, and methods of operations checked. The investigation indicated that MWC's system is in compliance with the requirements of the Commission's General Order 103, Rules Governing Water Service, and that service is satisfactory. There are no outstanding Commission orders requiring system improvements.

MWC has an adequate water supply to serve its customers and an ongoing program of leak repairs to minimize water loss. Its declining block rate structure was eliminated in the last general rate case in 1980 and it is fully metered. No additional conservation measures are needed.

The present metered rate schedule consists of a service charge and a single quantity block for all usage. MWC proposes to raise the service charges for the two smallest meter sizes to more closely approximate the Commission's standard meter charge ratios. Only four users are affected and the increases are small. MWC also proposes to place the remainder of the increase in the quantity charges. MWC's proposed rate design will result in service charges recovering approximately 47.7% of its fixed costs. This is in accordance with the Commission's rate design policy for small water companies established by Decision 86-05-064 which calls for fewer rate blocks, the elimination of lifeline, and service charges which recover up to 50% of fixed costs. The Branch concurs.

MWC was granted a rate increase in 1984 to amortize a \$6,957 undercollection in its purchased power balancing account. According to MWC's later calculations, the undercollection at that time was \$15,213 rather than \$6,957. The Branch has reviewed MWC's records and agrees that the amount to be amortized was probably understated. Because the City of Banning uses a complex rate structure involving time of use rates (peak/off peak), MWC finds it burdensome to maintain the balancing account, does not wish to recover any possible undercollection, and requests that the balancing account be terminated. The Branch agrees that MWC's request is reasonable but notes that, should power rates rise, MWC would have the opportunity to request an offset rate increase. Accordingly, it is equitable that they also be required to decrease rates should power rates drop below those adopted in this resolution and we will so order.

The Branch recommends that the Commission authorize an increase in gross revenue of \$10,410 or 15.1%. This increase would provide a 2.84% return on rate base but result in MWC being granted the full rates it requested.

At the recommended rates, the monthly bill for a typical metered customer using 38 Ccf per month would increase from \$22.92 to \$25.62, or 11.8%. A comparison of the present and recommended rates is shown in Appendix C.

The Commission's opinion, after investigation by the Water Utilities 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. For the purpose of earnings tests in any future offset rate increase requests, a rate of return on rate base not exceeding 10.5% should be considered reasonable.
- e. M&C should be authorized to terminate its purchased power balancing account and it should not be allowed to file a subsequent rate request to amortize any present undercollection in its balancing account. M&C should be required to reduce rates in the future should its electric power rates drop below those adopted in this resolution.

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 Mountain Water Company to file an advice letter incorporating the summary of earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel the presently effective rate Schedule No. 1. Such filing shall comply with General Order 96-A.
2. The effective date of the revised rate schedule shall be the date of filing.
3. Mountain Water Company is authorized to terminate its purchased power balancing account.
4. Should its future electric power rates decrease below those adopted in this resolution, Mountain Water Company shall within 30 days of such reduction file an advice letter reducing its water rates to reflect its lower power rates.
5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on **MAR 6 1987** . The following Commissioners approved it:

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
Commissioners



VICTOR R. WEISSNER  
Executive Director

APPENDIX A

Mountain Water Company

SUMMARY OF EARNINGS  
(Estimated Year 1986)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Total Oper. Revs.</u>	\$ 67,963	\$ 78,415	\$ 68,980	\$ 79,390	\$ 79,390
<u>Operating Expenses</u>					
Purchased Power	39,182	39,182	38,320	38,320	38,320
Materials	480	480	480	480	480
Contract Work	4,665	4,665	4,665	4,665	4,665
Employee Labor	3,376	3,376	3,376	3,376	3,376
Insurance	650	650	650	650	650
Management Sal.	2,310	2,310	2,310	2,310	2,310
Office Supplies	558	558	558	558	558
Vehicle Expenses	1,560	1,560	1,560	1,560	1,560
Office Salaries	2,730	2,730	2,730	2,730	2,730
General Expense	120	120	120	120	120
Office Storage	600	600	600	600	600
<u>Total Expenses</u>	56,231	56,231	55,369	55,369	55,369
Depreciation	10,387	10,387	10,387	10,387	10,387
Property Taxes	1,458	1,458	1,458	1,458	1,458
Other Taxes	649	649	649	649	649
Income Taxes	-	-	338	2,670	2,670
<u>Total Deductions</u>	68,725	68,725	68,201	70,533	70,533
Net Revenue	(762)	9,690	779	8,857	8,857
<u>Rate Base</u>					
Average Plant	366,854	366,854	366,854	366,854	366,854
Avg. Depr. Reserve	65,273	65,273	65,273	65,273	65,273
Net Plant	301,581	301,581	301,581	301,581	301,581
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Working Cash	6,035	6,035	6,035	6,035	6,035
Matls. & Sup.	4,745	4,745	4,745	4,745	4,745
<u>Rate Base</u>	312,361	312,361	312,361	312,361	312,361
Rate of Return	Loss	3.10%	0.25%	2.84%	2.84%

APPENDIX B

MOUNTAIN WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Banning, and vicinity, Riverside County.

RATES

Service Charge:	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter.....	\$ 4.00	(I)
For 3/4-inch meter.....	5.00	(I)
For 1-inch meter.....	7.00	(D)
For 1-1/2-inch meter.....	10.50	
For 2-inch meter.....	14.00	
For 3-inch meter.....	21.00	
For 4-inch meter.....	28.00	
For 6-inch meter.....	42.00	

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

Quantity Rates:

High Valleys Water Dist., per 100 cu.ft.....	\$ 0.59	(I)
All Others, per 100 cu.ft.....	0.49	(I)

APPENDIX C

COMPARISON OF RATES

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

METERED SERVICE

	Per Meter Per Month	
	Present Rates	Recommended Rates
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 2.50	\$ 4.00
For 3/4-inch meter.....	4.65	5.00
For 1-inch meter.....	7.00	7.00
For 1-1/2-inch meter.....	10.50	10.50
For 2-inch meter.....	14.00	14.00
For 3-inch meter.....	21.00	21.00
For 4-inch meter.....	28.00	28.00
For 6-inch meter.....	42.00	42.00
Quantity Rates:		
High Valleys Water Dist., per 100 cu.ft....	\$ 0.419	\$ 0.59
All Others, per 100 cu.ft.....	0.419	0.49

A comparison of monthly customer bills at present and the Branch's recommended rates for a 1-inch meter is tabulated below:

Usage 100 cu.ft.	Present Bills	Proposed Bills	Increase	
			Amount	Percent
0	\$ 7.00	\$ 7.00	\$ 0.00	0.0%
3	8.26	8.47	0.21	2.6
10	11.19	11.90	0.71	6.3
30	19.57	21.70	2.13	10.9
38(Avg.)	22.92	25.62	2.70	11.8
50	27.95	31.50	3.55	12.7

High Valleys Water District

A comparison of monthly bills at present and the Branch's recommended rates for a 6-inch meter is tabulated below:

Usage 100 cu.ft.	Present Bills	Proposed Bills	Increase	
			Amount	Percent
0	\$ 42.00	\$ 42.00	\$ 0.00	0.0
500	251.50	337.00	85.50	34.0
1,000	461.00	632.00	171.00	37.1
1,500	670.50	927.00	256.50	38.3
2,000	880.00	1,222.00	342.00	38.9
2,500	1,089.50	1,517.00	427.50	39.2
3,000	1,299.00	1,812.00	513.00	39.5

APPENDIX D

Page 1

ADOPTED QUANTITIES  
(1986 Test Year)

Name of Company: Mountain Water Company

Federal Tax Rate:	15%
State Tax Rate:	9.6%
Local Franchise Tax Rate:	0
Business License:	0
Uncollectible Rate:	0

Expenses

1. Purchased Power

City of Banning

Eff. Sch. Date	5/01/85
kwh	271,770
\$/kwh	0.09926
Total Cost	\$ 26,975

Southern California Edison

Rate Schedule	PA-1
Eff. Sch. Date	9/19/86
kwh	132,685
\$/kwh	0.08007
Service Charge	\$ 720
Total Cost	\$11,345

2. Purchased Water: None

3. Pump Tax-Replenishment Tax: None

4. Payroll	
Operations and Maintenance	\$ 3,316
Administrative & General	\$ 5,040

5. Ad Valorem Taxes:	\$ 1,458
Tax Rate	1.174%
Assessed Value	\$124,225



APPENDIX D  
Page 2

Service Connections

<u>Meter Size</u>	<u>Number</u>
5/8 x 3/4-inch	3
3/4-inch	1
1-inch	198
1-1/2-inch	5
2-inch	2
6-inch	<u>1</u>
Total	210

Metered Water Sales Used to Design Rates:

	<u>Usage</u> <u>Ccf</u>
High Valleys Water District	17,491
All Other Customers	103,594

## APPENDIX D

Page 3

ADOPTED TAX CALCULATIONS

<u>Line No.</u>	<u>Item</u>	<u>1986 Adopted Rates</u>	
		<u>OCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$19,390	\$79,390
2.	Operating Expenses	55,369	55,369
3.	Taxes Other Than Income	2,107	2,107
4.	Tax Depreciation	10,387	10,387
5.	Interest	-	-
6.	State Income Tax	-	1,107
7.	Sub-Total Deduction	67,863	68,970
8.	State Taxable Income	11,527	
9.	State Income Tax (9.6%)	1,107	
10.	Federal Taxable Income		10,420
11.	Federal Income Tax (15%)		1,563
12.	Total Income Tax		2,670

(END OF APPENDIX D)

APPENDIX E  
Page 1

Donald D. Sullivan  
President, Board of Directors  
High Valleys Water District  
HCR 1 Box 33  
Panning, CA 92220

Dear Mr. Sullivan:

On September 2, 1986 Mountain Water Company notified its customers that it was requesting authorization to increase the rates it charges its customers for water service. Included in Mountain's request was a \$0.10 per Ccf differential in the quantity rate for metered water supplied to High Valleys Water District. On September 17, 1986 you wrote on behalf of the District protesting Mountain's proposed differential.

On September 21, 1987 Mountain wrote to the Commission staff in response to your protest letter and explained why it believed the differential is appropriate. On October 11th, Mountain submitted a study which shows that the costs of serving the District are higher than the costs of serving its other customers. Copies of both items were sent to the District.

After considering all the relevant facts of which it is aware, the Commission has authorized Mountain to increase its rates by \$10,410 (15.1%) and to charge the District a higher metered quantity rate than other customers.

We recognize the District's objection to paying a higher rate than Mountain's other customers. However, it would be inappropriate for customers of Mountain to subsidize customers of the District by artificially maintaining equal quantity rates. The differential authorized now by the Commission is similar to the differential established when Mountain initiated service to the District by contract in 1972.

If you have questions or would like to discuss this matter further, please write or call Al Arellano at our Los Angeles office, (213) 620-2608.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch

APPENDIX E

Page 2

Robert W. Thorensen  
4402 Terry Lee Circle  
Ranning, CA 92220

Dear Mr. Thorensen:

On September 2, 1986 Mountain Water Company notified its customers that it was requesting authorization to increase the rates it charges its customers for water service. On September 22, 1986 you wrote to the Commission protesting Mountain's proposed increase.

After considering all the relevant facts of which it is aware, the Commission has authorized Mountain to increase its rates by \$10,410 (15.1%). The bill for a typical customer using 38 Ccf per month will rise to \$25.62 from \$22.92, or about 11.8%.

Even with this rate increase, Mountain will be earning less than a 3% return on its investment in water plant. The increase granted in 1984 was to offset the higher costs of electric power only. Mountain has not had a rate increase to reflect the rising costs of payroll, materials and other operations and maintenance expenses since June, 1980.

In establishing rates, the Commission's role is twofold. Rates must be kept as low as possible for customers while at the same time allowing utilities to cover their operating expenses and earn a reasonable return on their investment in plant. You may be assured that Mountain Water Company's request was thoroughly reviewed by the Commission before this change in rates was authorized.

If you have questions, please write or call Al Arellano at our Los Angeles office, (213) 620-2608.

Very truly yours,

WESLEY FRANKLIN, Chief  
Water Utilities Branch