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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3369
September 10, 1987

R E S O L U T I O N

(Res. W-3369), LLANO DEL RIO WATER COMPANY
(LDRWC). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING \$31,385 OR 65.4% ADDITIONAL
GROSS ANNUAL REVENUE

LDRWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on January 20, 1987, requested authority under Section VI of General Order 96-A to increase rates for water service by \$31,385 or 65.4%. LDRWC estimates that 1987 gross revenues of \$48,015 at present rates would increase to \$79,400 at proposed rates and would produce a rate of return on rate base of 4.5%. LDRWC serves 32 flat rate customers, 84 metered customers and one irrigation customer (Crystalaire Golf Course) in the south Antelope Valley area of Los Angeles County.

The present rates were established by Resolution No. W-3028, dated October 20, 1982, which granted a 33.9% general rate increase.

The Branch made an independent analysis of LDRWC's summary of earnings. Appendix A shows LDRWC's and the Branch's estimated summary of earnings at present, requested and adopted rates. Appendix A shows differences in expenses and rate base.

The differences in operating expenses are in purchased power, office supplies, depreciation expense and income taxes.

The difference in the estimates of purchased power results from the Branch's use of Southern California Edison Company's latest rate, effective January 1, 1987. LDRWC used rates effective April 7, 1986.

LDRWC's estimate of office supplies differs from that of the Branch because it is based on the 1986 recorded amount, whereas the Branch used an average of the last several years. The recorded 1986 amount was significantly higher than the past several years. Since office supplies expense is somewhat cyclical in that many items are purchased in lots which might last more than one year, the Branch believes a more reasonable estimate is obtained by basing the test year estimate on an average of the recorded amounts for the years 1984, 1985, and 1986.

LDRWC's estimate of depreciation expense is higher than the Branch's. For its estimates, LDRWC used the service lives it obtained from Internal Revenue

Service (tax) publications to calculate depreciation. In general, service lives for tax purposes do not reflect actual life expectancy of plant in service. The Branch, in keeping with long standing Commission policy, based its estimate on the actual life expectancy of plant in service as prescribed in the Commission's Standard Practice U-4, Determination of Straight-Line Remaining Life Accruals.

The Branch's calculation of income tax at proposed rates is significantly greater than LDRWC's. LDRWC did not calculate federal income tax and claimed only the minimum \$200 amount for state income tax. The Branch has included both federal and state income taxes in its summary of earnings.

The differences in rate base between LDRWC and the Branch are in utility plant and depreciation reserve.

The difference in plant estimates is due to the Branch using later information not available to LDRWC at the time it made its estimate.

Depreciation reserve estimates differ because as explained previously in the discussion on depreciation expense, LDRWC used service lives related to tax computations to calculate depreciation expense, while the Branch used service lives that reflect the actual life expectancy of the plant.

The summary of earnings submitted with LDRWC's rate increase request shows a return of 4.5% at proposed rates, while the Branch's recommended summary of earnings shows a return of 3.9% at proposed rates. This rate of return, although lower than the 10.25% to 10.75% rate of return range recommended by the Financial Branch of the Evaluation and Compliance Division for 100% equity water companies, results in LDRWC being granted the revenue increase and rates that it requested.

The authorized rate of return in the last general 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 LDRWC in future offset requests.

LDRWC was informed of the Branch's differing view of expenses, income taxes, rate base, and rate of return and has stated that it accepts the Branch's estimates.

Notice of the proposed rate increase and public meeting was mailed to each customer the week of June 1, 1987. One letter was received in response to the notice. An informal public meeting was held on June 11, 1987 at the Crystalair Golf Course Club House. Seven customers attended. The Branch addressed their concerns about rates and service and the customers appeared satisfied. The Branch has sent a letter to the one customer who wrote in explaining the Branch's recommendations on the proposed rate increase.

Field investigations of LDRWC's system were made on April 2 and 22, 1987. Visible portions of the water system were inspected, customers and company employees were interviewed and methods of operations checked. The Branch

checked with the Los Angeles County Health Department and found that water quality meets state standards. LDRWC's system is in compliance with the requirements of the Commission's General Order 103, Rules Governing Water Service, and service is satisfactory. There are no outstanding Commission orders requiring system improvements.

LDRWC has two water supply sources; ground water provided by two wells is used to supply its residential customers and Big Rock Creek is used to supply irrigation (untreated) water to the Crystallaire Golf Course. The water mains used to serve the golf course are not interconnected with those serving residential customers. LDRWC's groundwater and creek sources along with its storage facilities provide an adequate water supply. In 1984, LDRWC, on its own conservation oriented initiative, instituted a metering program that put all large (lots of one acre or more) flat rate users on meters. The need for metering has been demonstrated as the average monthly use of the newly metered residential customers is 66 Ccf or nearly four times the state average for residential customers. (One Ccf is equal to one - hundred cubic feet.) Large lots and extensive landscape watering are the reasons for the high water use in this upper income area. The metering program was completed in early 1987. At this time, water conservation is not a major issue, however, another dry year may force LDRWC to implement stronger measures.

LDRWC is proposing that the overall system increase of 65.4% be spread so that the increase to the average metered and flat rate customer is 60.7% and 78.9% respectively. As a result of its metering program discussed above, flat rate customers whose service was converted to meters saw quite a large jump in their monthly bills and in recognition of this LDRWC proposes a smaller increase for its metered customers. While LDRWC's proposal does not conform to the Commission's usual practice of an equal increase to both classes of customers, the Branch supports LDRWC's proposal, believes in this case it is reasonable, and recommends that the Commission adopt it.

With regard to metered rate design, the Commission by Decision 86-05-064 adopted a new policy calling for water companies to recover up to 50% of their fixed costs through service charges, the phasing out lifeline rates, and the reduction of multiple commodity blocks to a single block. The decision also called for no customer's total water bill to be increased substantially more than the total system increase.

LDRWC's current metered rates consist of a service charge which recovers 11.1% of fixed costs, a 300 cubic foot per month lifeline block, and an inverted tail block. The Branch's recommended rates eliminate the lifeline block, raise service charge as much as possible without imposing an increase of substantially more than the system increase at any usage level, and results in service charges which recover 24.0% of fixed costs.

Under the Branch's recommendation, the average metered customer's monthly bill will increase from \$29.25 to \$47.00 or 60.7%. Monthly bills for the average residential flat rate customer will increase from \$9.50 to \$17.00 or 78.9%. Appendix C shows a comparison of monthly rates and customer bills at present and Branch's recommended rates.

The Branch recommends that LDRWC be authorized to increase its rates by \$31,385

or 65.4% which would increase gross annual revenues from \$48,015 at present rates to \$79,400 at the recommended rates contained in Appendix B. This increase provides a rate of return on rate base of 3.9% for test year 1987.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
3. For the purpose of earnings tests in any future offset rate increase requests, a rate of return on rate base not exceeding 10.50% should be considered reasonable.
4. The increased rates hereby authorized are justified and the present rates are, for the future, unjust and unreasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Llano Del Rio 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, and concurrently to cancel the presently effective rate schedules. 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 September 10, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

Commissioner Donald Vial, being necessarily absent, did not participate.

APPENDIX A

Llano Del Rio Water Co.

SUMMARY OF EARNINGS
(Estimated Year 1987)

Item	: Utility Estimated :		: Branch Estimated :		: Adopted :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	
Operating Revenues					
Metered	\$29,772	\$47,717	\$29,772	\$47,717	\$47,717
Flat Rate	3,648	6,528	3,648	6,528	6,528
Irrigation	14,595	25,155	14,595	25,155	25,155
Total Revenues	\$48,015	\$79,400	\$48,015	\$79,400	\$79,400
Operating Expenses					
Purchased Water	4,328	4,328	4,328	4,328	4,328
Pumping Power	15,556	15,556	14,920	14,920	14,920
Employee Labor	11,000	11,000	11,000	11,000	11,000
Materials	6,000	6,000	6,000	6,000	6,000
Contract Work	1,000	1,000	1,000	1,000	1,000
Office Salaries	250	250	250	250	250
Management Salaries	2,000	2,000	2,000	2,000	2,000
Office Supplies	800	800	585	585	585
Insurance	9,500	9,500	9,500	9,500	9,500
Account, Legal, etc.	2,700	2,700	2,700	2,700	2,700
General Expense	2,500	2,500	2,500	2,500	2,500
Vehicle Expense	6,000	6,000	6,000	6,000	6,000
Office & Storage	1,200	1,200	1,200	1,200	1,200
Total Expenses	\$62,834	\$62,834	\$61,983	\$61,983	\$61,983
Depreciation	8,750	8,750	7,190	7,190	7,190
Property Taxes	925	925	925	925	925
Other Taxes	875	875	875	875	875
Income Taxes	200	200	200	1,950	1,950
Total Deductions	\$73,584	\$73,584	\$71,173	\$72,923	\$72,923
Net Revenue	(\$25,569)	\$ 5,816	(\$23,158)	\$ 6,477	\$ 6,477
Aver. Rate Base					
Average Plant	\$211,740	\$211,740	\$241,370	\$241,370	\$241,370
Average Depr. Res.	92,670	92,670	85,425	85,425	85,425
Net Plant	119,070	119,070	155,945	155,945	155,945
Less: Advances	0	0	0	0	0
Contributions	0	0	0	0	0
Plus: Working Cash	10,465	10,465	10,465	10,465	10,465
Mat'l. & Suppl.	900	900	900	900	900
Rate Base	\$130,435	\$130,435	\$167,310	\$167,310	\$167,310
Rate of Return	Loss	4.5%	Loss	3.9%	3.9%

APPENDIX B
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service with the exception of irrigation service and metered service for resale purposes.

TERRITORY

An area comprising approximately 1,250 acres located in portions of Section 4, 5, and 6, T.4 N., and Section 31 and 32, T.5N., all in R.9W., S. B. B. & N., and vicinity, near Llano, Los Angeles County.

RATES

<u>Quantity Rates</u>	<u>Per Meter</u> <u>Per Month</u>	
All Water, per 100 cu.ft.	\$ 0.50	(I) (C)
 <u>Service Charge</u>		
For 5/8 x 3/4-inch meter	\$ 9.30	(I)
For 3/4-inch meter	10.30	⋮
For 1-inch meter	14.00	⋮
For 1-1/2-inch meter	18.70	⋮
For 2-inch meter	25.00	⋮
For 4-inch meter	63.50	⋮
For 6-inch meter	105.50	(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.

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Schedule No. 3L

IRRIGATION SERVICE

APPLICABILITY

Applicable to untreated gravity water service furnished to The Crystalaire Country Club.

TERRITORY

An area comprising approximately 1,250 acres located in portions of Section 4, 5, and 6, T.4 N., and Section 31 and 32, T.5N., all in R.9W., S. B. B. & M., and vicinity, near Llano, Los Angeles County.

RATES

Per Year

First 750 acre-feet	\$22,500.00 (I)
Over 750 acre-feet, per acre-foot	45.00 (I)

SPECIAL CONDITIONS

1. This schedule is available only upon written agreement, a copy of which agreement is on file with the Public Utilities Commission, and all terms and conditions contained in said agreement are by reference included herein.

2. A monthly charge of \$1,875.00, 1/12 of the initial charge per year, will be due and payable on the first day of each month. Charges for deliveries in excess of 750 acre-feet during the yearly period may be billed monthly or annually at the option of the utility. (I)

3. In the event of a water shortage prevents the utility from making 750 acre-feet suitably available during the year, the initial charge will be reduced by an amount equal to the difference between 750 acre-feet and the quantity in acre-feet actually delivered times \$30.00 per acre-foot and refunds will be made accordingly. (I)

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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

An area comprising approximately 1,250 acres located in portions of Section 4, 5, and 6, T.4 N., and Section 31 and 32, T.5N., all in R.9W., S. B. B. & N., and vicinity, near Llano, Los Angeles County.

RATES

Per Service Connection
Per Month

1. For a single-family residential unit, including premises:		
3/4-inch service connection	\$17.00	(I)
1-inch service connection	22.70	
1-1/4-inch service connection	28.45	
1-1/2-inch service connection	33.45	
2-inch service connection	63.15	
2. For each hotel, apartment or motel including first unit, office and utility rooms	17.00	
a. For each additional unit	17.00	
3. For Crystallaire Country Club clubhouse, drinking fountains and greenskeeper's residence, 2-inch service connection	62.60	(I)

SPECIAL CONDITIONS

1. All service not covered by the above classification shall be furnished only on a metered basis.

2. Meters shall be installed if either utility or customer so chooses for above classifications, in which event service thereafter shall be furnished only on the basis of Schedule No. 1, General Metered Service.

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>
	<u>Present Rates</u>	<u>Recommended Rates</u>	
<u>Service Charge:</u>			
For 5/8 x 3/4-inch meter	\$ 4.30	\$ 9.30	116.3
For 3/4-inch meter	4.75	10.30	116.8
For 1-inch meter	6.45	14.00	117.1
For 1-1/2-inch meter	8.60	18.70	117.4
For 2-inch meter	11.60	25.00	115.5
For 4-inch meter	29.25	63.50	117.1
For 6-inch meter	48.60	105.50	117.1

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.25	-
Over 300 cu.ft., per 100 cu.ft.35	-
Per 100 cu.ft.	-	.50

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

<u>Usage - 100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 6.45	\$ 14.00	\$ 7.55	117.1
3	7.20	15.50	8.30	115.3
10	9.65	19.00	9.35	96.9
30	16.65	29.00	12.35	74.2
40	20.15	34.00	13.85	68.7
50	23.65	39.00	15.35	64.9
60	27.15	44.00	16.85	62.1
66 (Avg.)	29.25	47.00	17.75	60.7
70	30.65	49.00	18.35	59.9
80	34.15	54.00	19.85	58.1

Flat Rate Service

Per Service Connection
Per Month

For a single-family residential unit, including premises:

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>
3/4-inch service connection	\$ 9.50	\$17.00	78.9
1-inch service connection	12.50	22.70	81.6
1-1/4-inch service connection	15.90	28.45	78.9
1-1/2-inch service connection	18.70	33.45	78.9
2-inch service connection	35.30	63.15	78.9

APPENDIX D

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ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Llano Del Rio Water Co.

Federal Tax Rates: 15.0%
State Tax Rate: 9.6%

Expenses:

1. Purchased Power
 - Southern California Edison Company
 - Rate Schedule PA-1
 - Eff. Sch. Date 1/1/87
 - kWh 174,970
 - \$/kWh 0.07996
 - Service Charge \$ 930
 - Total Cost \$14,920
2. Purchased Water: \$ 4,328
3. Pump Tax-Replenishment Tax: None
4. Payroll:
 - Operation and Maintenance \$11,000
 - Administrative & General \$ 2,250
5. Ad Valorem Taxes: \$ 925
 - Tax Rate 1.055
 - Assessed Valuation \$87,677

Service Connection

<u>1. Metered Size</u>	<u>No. of Connection</u>
5/8 x 3/4"	0
3/4"	0
1"	83
1-1/2"	0
2"	1
4"	0
6"	0
 <u>Flat Rate</u>	
1. Residential 3/4".....	21
2. Hotel or Apt. Services.....	11
3. Crystallaire Golf Course 2".	1
Total	117

Metered Water Sales Used to Design Rates:

Residential Usage, Cof 67,064 Cof
Irrigation Usage, Acre Feet 809 AF

APPENDIX D
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ADOPTED TAX CALCULATIONS

Line No.	Item	1985 Adopted Rates	
		<u>CCFT</u>	<u>FIT</u>
1.	Operating Revenues	\$79,400	\$79,400
2.	Operating Expenses	61,983	61,983
3.	Taxes Other Than Income	1,800	1,800
4.	Tax Depreciation	7,190	7,190
5.	Interest	0	0
6.	State Income Tax	-	808
7.	Sub-total Deduction	70,973	71,781
8.	State Taxable Income	8,427	-
9.	State Income Tax (9.6%)	808	-
10.	Federal Taxable Income	-	7,619
11.	Federal Income Tax (15%)	-	1,142
12.	Total Income Tax	-	1,950