

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3372
October 16, 1987R E S O L U T I O N

(RES. W-3372) MESA CREST WATER COMPANY (MCW). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$45,154
OR 10.86% ADDITIONAL ANNUAL REVENUE.

MCW by draft advice letter accepted by the Water Utilities Branch (Branch) on October 5, 1986, requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$125,433 or 31.27%. MCW estimates that 1987 gross revenue of \$401,180 at present rates would increase to \$526,613 at proposed rates and would produce a rate of return of 10.0% on rate base. MCW serves about 656 metered services and 4 fire protection services in the community of La Canada, Los Angeles County.

The present rates have been in effect since August 7, 1985 pursuant to Resolution W-3272 which authorized an offset rate increase. The last general rate increase was authorized on September 3, 1980 by Resolution W-2702.

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

The Branch and MCW met on several occasions to discuss the summary of earnings. The differences in revenues, expenses, and rate base result from: (1) later information provided by MCW on the number of customers and water consumption per customer which caused the Branch's estimates of revenues and purchased power and water to be somewhat higher, (2) a supplemental property tax assessment related to new storage facilities not available to MCW at the time it made its estimate, (3) MCW's use of unsubstantiated inflation factors - factors higher than those recommended by the Advisory, Evaluation and Research Branch (AER) of Evaluation and Compliance Division (ECD) - for estimating contract work and outside service, (4) accounting practices on the part of MCW not in accord with the Commission's accounting system for small water utilities, and (5) differences in items such as taxes, general expenses (employee benefits, franchise taxes, and uncollectibles), and working cash which depend on the level of expenses and revenues estimated elsewhere.

The major differences between the Branch and MCW involve the estimates of payroll, materials expense, office supplies, and vehicle expense. These differences are addressed below.

MCW's estimate of payroll is \$89,979 versus the Branch's estimate of \$62,394. The \$27,585 difference results primarily from the difference in the number of employees used to develop payroll estimates. MCW's estimate is based on four full-time employees recorded on its books. Adopted payroll in the last general rate case in 1980 was \$38,700 and customer growth since that time has been very limited - less than 1% per year. In light of this, the Branch views MCW's estimate as excessive. Based on a study it made of comparable water utilities, the Branch used one part-time and two full-time employees to develop its recommended payroll estimate (\$62,394) and believes this number of employees is sufficient to run the system. To check its recommended estimate for reasonableness, the Branch used the 1980 adopted payroll as a base, adjusted it for system growth and inflation, and found the result to be consistent with its recommended estimate. The inflation factors used by the Branch were those provided by AER for small water companies. AER derives its factors from the monthly Data Resources, Inc. publication Review of the U.S. Economy.

MCW's estimates of materials and office supply expenses of \$19,046 and \$18,224, respectively, greatly exceed the Branch's estimates of \$7,565 for each. For these expense items, MCW's accounting practices were not in keeping with the Commission's accounting standards for small water utilities. In its review, the Branch discovered that a number of these items were either mingled with other accounts or misclassified. MCW could not explain how this occurred. Rather than rely on the records and workpapers provided by MCW for materials and office supply expenses, the Branch based its estimates of these expense items on the adopted levels in the last general rate case, updated to reflect system growth and inflation.

MCW's estimate of vehicle expense of \$20,580 greatly exceeds the Branch's estimate of \$4,200. MCW's estimate is based on the average of five years (1981-1985) recorded expenses escalated to 1987. MCW is a small company with a compact service area near a major metropolitan area where water system parts and supplies are readily available. Given these circumstances, the Branch believes that MCW's recorded vehicle mileage - 58,500 miles in 1985, for example - is far too high. The Branch based its estimate on what a typical small water company in MCW's situation requires. The amount recommended is sufficient to cover vehicle mileage in and around the service area and for outside business, and for repairs, upkeep, and insurance. The result was checked for reasonableness by comparing it to the vehicle expenses of other similarly situated water utilities.

The Branch's summary of earnings shows a rate of return of 10.50% at its recommended rates. This is the midpoint of the rate of return range (10.25% to 10.75%) recommended for small water utilities with 100% equity financing by ECD's Accounting and Financial Branch. Although this is greater than the 10.0% return proposed, it still results in the utility being granted an overall revenue increase less than it requested.

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

A notice of the proposed rate increase was mailed to all customers on October 20, 1986. Nineteen letters were received in response to the notice. All protested the magnitude of the rate increase, and one also requested a

formal hearing. There were no service complaints in the protest letters.

The Branch conducted a public meeting in La Canada on September 14, 1987 to receive public input and answer customers' questions. Eleven MCW customers attended and three wrote letters. The primary sentiment expressed was that the rates proposed by MCW were too high. Following the meeting the Branch also received a protest letter from the Starlite Mesa Homeowners Association complaining once again of the high proposed rates, MCW's proposal to transition from a minimum charge to a service charge rate structure, the unwillingness of MCW to bear the cost of rearranging the Association's landscape irrigation system, and the inclusion of depreciation as a legitimate utility expense. A Branch representative discussed the proposed increase with the Association's representative at the public meeting, and the Branch later responded in writing addressing each of the concerns expressed in the Association's letter.

The Branch has drafted a separate letter explaining the Commission's action. It will be mailed to all those who wrote in about MCW's proposal, including the Homeowners Association, after this resolution is signed. The draft letter is attached as Appendix E.

A field investigation of MCW's system was made on October 23, 1986 by a member of the Branch. Visible portions of the water system were inspected, pressures checked, company employees interviewed and methods of operation checked. The investigation indicated that service is satisfactory and MCW's system is in compliance with the requirements of the Commission's General Order No. 103, Rules Governing Water Service. There are no outstanding Commission orders requiring system improvements.

According to the California Department of Health Services, the quality of MCW's water meets state standards. All of MCW's water is obtained from the Foothill Municipal Water District which is a Metropolitan Water District wholesaler, and MCW uses the conservation measures sponsored by MWD. All customers are metered and all abnormal readings are investigated. Additional water conservation measures are not needed at this time.

As of May, 1987 MCW's balancing account for purchased power and purchased water was overcollected by \$14,406, or about 3% of gross revenues. In conformance with the Commission's balancing account policy for water utilities, the Branch recommends that the overcollection be amortized over twelve months by applying a credit of \$0.06 per one hundred cubic feet to the quantity charge.

By Decision 86-05-064 the Commission adopted a new policy effective May 28, 1986 calling for recovery of up to 50% of water companies' fixed expenses through service charges. The new policy also calls for phasing out lifeline rates and encourages the reduction of multiple blocks to a single block.

The present metered rate schedule consists of a minimum charge, a block for the first 300 cubic feet under the minimum charge and a second quantity block for over 300 cubic feet. The minimum charges currently recover 50% of MCW's fixed expenses; the Branch proposes to revise the metered schedule to service charges which recover 35%. A rate design with higher service charges would recover a greater proportion, but would also result in customers with low to moderate usage receiving an increase far greater than the overall percentage

increase. The Branch's proposed services charges are lower than the present minimum charges, resulting in a small rate reduction for customers with no usage. However, it is unlikely that any metered customer will have zero usage for an extended period, so all will realize an increase over the long term.

At the Branch's recommended rates, the monthly bill for a typical metered rate customer with a one-inch meter would increase from \$54.47 to \$61.80 or 13.45%. This is somewhat higher than the bills of other companies, but MCW's average usage of 30 Ccf per customer per month is far greater than the statewide average 15 to 20 Ccf. In addition, MCW's cost of purchased water at \$301 per acre foot is very high, and it has to lift its water more than 800 feet from its source of supply to its upper storage tanks which contributes to very high pumping power costs. A comparison of the present and recommended rates is shown in Appendix C.

The Branch recommends that the Commission authorize an increase of \$45,154 or 10.86% which would increase gross annual revenues from \$415,746 at present rates to \$460,900 at the recommended rates contained in Appendix B.

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 recommendation are reasonable and should be adopted.
3. The quantity rates should be reduced by \$0.06 per 100 cubic feet for a period of 12 months to amortize the overcollection in the purchased power and purchased water balancing account.
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 Mesa Crest 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, and concurrently to cancel the presently effective rate schedule. 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. The quantity rates shown in the revised rate schedule shall be reduced by \$0.06 per 100 cu.ft. for a period of 12 months starting on the effective date of the revised rate schedule for amortization of the overcollection in the purchased water and purchased power balancing account.

4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on October 16, 1987. The following Commissioners approved it:

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



VICTOR R. WEISSER
Executive Director

Commissioner John B. Ohanian, being necessarily absent, did not participate.

APPENDIX A

Mesa Crest Water Company

SUMMARY OF EARNINGS
(Test Year 1987)

Item	Utility Estimated		Branch Estimated		Adopted
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenue					
Metered Revenue	\$ 400,114	\$ 525,547	\$ 414,680	\$ 540,757	\$ 459,834
Priv. Fire Hydr. Rev.	1,066	1,066	1,066	1,066	1,066
Total Revenue	401,180	526,613	415,746	541,823	460,900
Operating Expenses					
Purchased Water	164,843	164,843	171,202	171,202	171,202
Purchased Power	53,666	53,666	55,223	55,223	55,223
Payroll	89,979	89,979	62,394	62,394	62,394
Materials	19,046	19,046	7,565	7,565	7,565
Contract Work	12,989	12,989	11,348	11,348	11,348
Off. Suppls. & Exp.	18,224	18,224	7,565	7,565	7,565
Insurance	15,860	15,860	15,860	15,860	15,860
Outside Service	11,839	11,839	10,740	10,740	10,740
Vehicle Expense	20,580	20,580	4,200	4,200	4,200
Rentals	12,924	12,924	12,924	12,924	12,924
General Expenses	24,283	26,257	18,873	20,339	19,602
Subtotal	444,233	446,207	377,894	379,360	378,623
Depreciation	22,610	22,610	22,610	22,610	22,610
Property Taxes	6,220	6,220	8,707	8,707	8,707
Payroll Taxes	7,940	7,940	5,207	5,207	5,207
Income Tax	2,076	10,305	369	44,210	11,087
Total Deductions	483,079	493,282	414,787	460,094	426,234
Net Revenue	(81,899)	33,331	959	81,729	34,666
Rate Base					
Average Plant	1,262,270	1,262,270	1,262,270	1,262,270	1,262,270
Aver. Depr. Res.	429,440	429,440	429,440	429,440	429,440
Net Plant	832,830	832,830	832,830	832,830	832,830
Less: Advances	278,760	278,760	278,760	278,760	278,760
Contributions	216,670	216,670	216,670	216,670	216,670
Plus: Work Cash	34,830	34,830	31,716	31,755	31,738
Mat'l & Supp.	350	350	350	350	350
Less: Defer Taxes	39,420	39,420	39,420	39,420	39,420
Rate Base	333,160	333,160	330,046	330,085	330,068
Rate of Return	(24.58)%	10.0%	0.29%	24.76%	10.50%

(Negative)

APPENDIX B

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The vicinity of La Canada, Los Angeles County.

RATES

Quantity Rates:

All usage, per 100 cu.ft..... \$ 1.72 (I)

Service Charge:

	Per Meter Per Month		Per Meter Per Month Surcharge
For 5/8 x 3/4-inch meter.....	\$ 6.80	(I)	\$ 1.00
For 3/4-inch meter.....	7.50		1.50
For 1-inch meter.....	10.20		2.50
For 1-1/2-inch meter.....	13.60		5.00
For 2-inch meter.....	18.30		8.00
For 3-inch meter.....	33.90		15.00
For 4-inch meter.....	46.20		25.00
For 6-inch meter.....	76.70	(I)	50.00

The service charge is applicable to all service. (C)
 It is a readiness to serve charge to which is
 added the charge, computed at the Quantity Rate,
 for water used during the month. (C)

METERED SERVICE SURCHARGE

Note: This surcharge is in addition to the regular monthly metered water bill. The total monthly surcharge must be identified on each bill. This surcharge is specifically for the repayment of the California Safe Drinking Water Bond Act Loan as authorized by Decision 83-12-003. (T)

BALANCING ACCOUNT

Note: For a period of 12 months starting on the effective date of this rate schedule, the quantity rate is subject to a decrease of \$0.06 per 100 cu.ft. for amortization of the overcollection in the balancing account for purchased water and purchased power. (N)

APPENDIX C

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>METERED SERVICE</u>		
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.....	\$11.00	
Over 300 cu.ft., per 100 cu.ft.....	1.61	
All usage, per 100 cu.ft.....		\$ 1.72
	<u>Minimum Charges</u>	<u>Service Charges</u>
For 5/8 x 3/4-inch meter.....	\$ 11.00	\$ 6.80
For 3/4-inch meter.....	14.30	7.50
For 1-inch meter.....	17.00	10.20
For 1-1/2-inch meter.....	24.00	13.60
For 2-inch meter.....	35.00	18.30
For 3-inch meter.....	54.00	33.90
For 4-inch meter.....	86.00	46.20
For 6-inch meter.....	170.00	76.70

A comparison of monthly bills for customers with 1-inch water meters at present and Branch recommended rates is shown below:

<u>Usage</u> <u>100 cu.ft.</u>	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
0	\$17.00	\$10.20	(\$6.80)	(40.00)
5	17.00	18.80	1.80	10.59
10	22.27	27.40	5.13	23.03
15	30.32	36.00	5.68	18.73
20	38.37	44.60	6.23	16.23
30 (Avg.)	54.47	61.80	7.33	13.45
40	70.57	79.00	8.43	11.94
50	86.67	96.20	9.53	10.99
100	167.17	182.20	15.03	8.99

NOTE: Excludes Safe Drinking Water Bond Act Surcharge and balancing account overcollection surcredit.

APPENDIX D
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ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Mesa Crest Water Company

Net-to-Gross Multiplier: 1.3284
 Federal Tax Rates: 15.0% @ \$25,000, 18.0% @ \$25,000 - \$50,000
 State Tax Rates: 9.6%
 Franchise Tax Rates: 0.00742
 Uncollectible Rates: 0.00700

Expenses Test Year

1. Purchased Power:	
Electric:	
Southern California Edison Company	
Total Cost	\$ 55,223
kWh Used	724,060
Eff. Sch. Date	1/1/87
\$/kWh Used	\$0.07627
Schedule	TOU-PA-1/GS-2
2. Purchased Water:	
Quantity	568.8 AF
Foothill Municipal Water District Rate	\$301 per AF
Effective Date	7/1/86
3. Pump Tax-Replenishment Tax:	None
4. Payroll and Employee Benefits:	
Operation and Maintenance Payroll	\$ 26,076
Administrative & General Salaries	\$ 36,318
Total Payroll	\$ 62,394
Payroll Taxes	\$ 5,207
Employee Benefits	\$ 4,367
5. Ad Valorem Taxes:	\$ 6,527
Tax Rate	1.18%
Assessed Value	\$552,906
Supplemental Tax (SDWBA Plant)	\$ 2,180

Service Connections:

1. Meter-Size	
5/8 x 3/4-inch.....	133
3/4-inch.....	1
1-inch.....	491
1-1/2-inch.....	19
2-inch.....	10
3-inch.....	2
2. Fire Protection Services	4
Total	<u>660</u>
3. Metered Water Sales used to Design Rates:	
All usage	222,354 Ccf
Unaccounted for Water	11.4%

APPENDIX D
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ADOPTED TAX CALCULATION

: Line: : No.:	Item	: At Adopted Rates :	
		: State :	: FIT :
		: Tax :	
1	Operating Revenues	\$460,900	\$460,900
2	O&M Expenses	378,623	378,623
3	Taxes Other than Income	13,914	13,914
4	Depreciation	22,610	22,610
5	Subtotal	45,753	45,753
6	Net Taxable Income for State Tax	45,753	
7	State Tax	4,392	4,392
8	Net Taxable Income for FIT		41,361
9	Federal Income Tax		6,695
10	Total Income Taxes		11,087

APPENDIX E

TO ALL PARTIES WHO HAVE WRITTEN TO THE COMMISSION REGARDING MESA CREST WATER COMPANY'S REQUEST FOR A 31.27% RATE INCREASE:

Dear Customer:

In October, 1986, Mesa Crest Water Company notified its customers that it was requesting authority from the California Public Utilities Commission to raise its rates by an average of 31.27%.

After considering all the factors presented the Commission has authorized Mesa Crest an increase in gross annual revenues of \$45,154 or 10.86%. The major factors causing the rate increase are increased costs of electric power for pumping water, purchased water, insurance and property taxes. The average metered customer will see an increase in the monthly bill from \$54.47 to \$61.80, or 13.5%.

The Commission received letters protesting the magnitude of Mesa Crest's proposed increase from 22 of its 656 customers. The Commission staff conducted a thorough investigation of Mesa Crest's operations, including its cost of providing service, its investment in water plant, its level of service, and the condition of its facilities. Following the investigation, the staff recommended and the Commission approved a 10.86% increase to cover Mesa Crest's costs and a reasonable return on its investment in water plant.

If you have any questions, please contact Richard Finnstrom in our Los Angeles office at (213) 620-2588.

Very truly yours,

WESLEY FRANKLIN, Chief
Water Utilities Branch