

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3503
July 18, 1990

R E S O L U T I O N

(RES. W-3503) COUNTY WATER COMPANY (CWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
\$63,839 OR 10.1% ADDITIONAL ANNUAL REVENUE.

CWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on July 25, 1989 requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase revenues for water service by \$104,600 or 17.8%. CWC estimates that 1990 gross revenue of \$587,920 at present rates would increase to \$692,520 at proposed rates to produce a rate of return on rate base of 10.75%. CWC presently serves approximately 2,725 metered customers and 8 private fire protection services within portions of the cities of Artesia, Bellflower, Lakewood, and Norwalk in Los Angeles County.

The present rates became effective March 4, 1985 pursuant to Resolution No. W-3232 dated February 21, 1985 which authorized a general rate increase of \$139,150 or 35.6%.

The Branch made an independent analysis of CWC's summary of earnings. Appendix A shows CWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for test year 1990. Appendix A also shows differences in revenue, expenses and rate base.

The differences in estimates for operating revenues are in metered revenue and private fire protection revenue.

The Branch's estimates of metered revenues at present and proposed rates are higher than CWC's. Metered revenues are estimated using both number of customers and consumption per customer. The Branch's estimate of a higher number of customers is based on actual recorded numbers which were not available when CWC prepared its estimate.

The Branch's estimate of water consumption per customer per month of 204.2 Ccf (one Ccf is equal to 100 cubic feet) is higher than CWC's corresponding estimate of 186.0 Ccf. CWC's estimate of water consumption was based on a hand drawn curve. This method gave very little consideration to the last five years recorded consumption which ranged from 206.2 to 214.6 Ccf. Since the Branch's estimates are based on a long term multiple regression analysis, it believes that its estimates of water consumption are more representative of water consumption expected in the test year.

The Branch's estimate of private fire protection service revenue is higher than CWC's. The Branch's estimate of private fire protection customers is based on the latest recorded data which was not available to CWC when it prepared its estimates.

The differences in estimates for operating expenses are in purchased water, materials, contract work, transportation, other plant maintenance, uncollectibles, office services and rent, insurance, ad valorem taxes, payroll taxes, other taxes, and income taxes.

The Branch's estimate for purchased water expense is higher than CWC's. The differences are due to Branch's estimate of higher water consumption and higher number of customers, as explained previously.

The Branch's estimate for materials expense is lower than CWC's. CWC inadvertently included certain meter replacement expenses in this account. The Branch corrected this by removing the meter replacement expenses from materials expense and including the same amount for the test year in plant-in-service items. The Branch's estimate is based on the average of the last three years recorded figures escalated for inflation and customer growth. The escalation factors used by the Branch for this and other accounts were those recommended by the Advisory Branch of Commission Advisory and Compliance Division.

The Branch's estimate for contract work is lower than CWC's. CWC's estimate is based on a five-year inflation adjusted average which included an abnormally high amount in 1985 recorded data. The Branch's estimate is based on the average of the last three year recorded figures adjusted for inflation and customer growth. The Branch believes that its three year average is more representative of contract work expense expected in the test year.

The Branch's estimate for transportation expense is lower than CWC's. CWC's estimate is based on a four-year average escalated by an arbitrary 5% inflation factor. This average covered nine vehicles but the Branch's investigation revealed that four vehicles were used for non-utility purposes in a related business. After reviewing CWC's operations, the Branch believes five vehicles are reasonable for this utility, and based its estimate on the portion of the recorded figures attributable to these five vehicles. The Branch then escalated these figures by applying its customer growth factors. CWC personnel have stated that only five vehicles are used in the utility's day-to-day operation.

The Branch's estimate for other plant maintenance expense is lower than CWC's. CWC's estimate included amounts for parking violations, capitalized items, and construction work in progress. The Branch's estimate reflect adjustments for items which were improperly included in this account.

The Branch's estimate of the uncollectibles rate is lower than CWC's. CWC's estimate is based on the five-year average recorded rate. The Branch's estimate is based on the three-year average recorded rate as being more representative of CWC's present customer profile and improved collection practices.

The Branch's estimate of office services and rentals expense is lower than CWC's. CWC's estimate is based on by applying a 5% escalation factor to the 1988 recorded amount. The Branch's estimate is based on the average of the last three-year recorded data, adjusted for inflation and customer growth. This account represents rent paid by CWC to the utility's owner for office, warehouse, and construction yard.

The Branch's estimate for insurance expense is lower than CWC's. The difference between CWC and the Branch is directly related to the number of

transportation vehicles estimated, as mentioned earlier, under transportation expense.

The Branch's estimate of ad valorem taxes is lower than CWC's. The difference is due to differences in estimated assessed values which were derived from net plant estimates. CWC and Branch used the same composite assessment rate.

The Branch's estimate of payroll taxes is lower than CWC's. The Branch's estimates are based on the latest payroll tax rates which were not available to CWC at the time it prepared its estimate.

The Branch's estimate for other taxes is lower than CWC's. These taxes include City Franchise taxes and are computed as a percentage of total revenues. The main reason for the differences between the Branch's and CWC's estimates is due to the differences in revenues (discussed earlier).

Both CWC's and the Branch's income tax estimate reflects the current rates under the Federal Tax Reform Act of 1986 and the corresponding state rates for 1990. The only differences are in revenue and expense estimates.

The difference in rate base between CWC and the Branch are due to differences in average utility plant and working cash.

The Branch's estimate of average utility plant is lower than CWC's. The Branch made the following three adjustments:

- (1) removed \$33,230 for purchase of a building lot for an office. At present, CWC rents space for an office which the Branch considers reasonable for this utility.
- (2) added \$8,550 for the purchase of two used vehicles in 1989, and
- (3) removed \$19,569 for the retirements of vehicles which are no longer used.

The Branch's estimate of depreciation reserve is lower than CWC's. As mentioned above, under plant, the Branch's retirement of vehicles has resulted in differences in depreciation reserve.

The Branch used the new simplified method of calculating a working cash allowance adopted by the Commission on January 27, 1989 to estimate its working cash estimate. CWC used the older, outdated method to calculate working cash.

CWC's draft advice letter requested rates which it estimated would produce a return on rate base of 10.75% in 1990. The Branch's recommended summary of earnings would produce a rate of return of 11.00% at the Branch's recommended rates. This 11.00% rate of return is the high point of the 10.50% to 11.00% standard rate of return range recommended by the Finance Branch of the Commission Advisory and Compliance Division for small 100% equity financed utilities.

CWC was informed of the Branch's differing views 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 and public meeting was mailed to each customer on December 1, 1989. Two letters protesting the magnitude of the proposed rate increase were received. On December 14, 1989, a branch engineer and CWC's management personnel were available at a designated place for a

public meeting in the service area to answer customer questions and explain the rate increase process, but no CWC customers attended the meeting.

A Branch engineer conducted a field inspection of CWC's service area and plant facilities on September 11, 1989. Visible portions of the water system were inspected, pressures checked, customers and company employees interviewed, and methods of operation checked. The investigation indicated that service is satisfactory and that CWC's system was in compliance with the requirements of the Commission's General Order 103 "Rules Governing Water Service Including Minimum Standards for Design and Construction."

According to the California Department of Health Services, CWC's water meets all primary and secondary drinking water standards currently in effect. There are no outstanding Commission orders requiring system improvements.

The Metropolitan Water District of Southern California (MWD), which is the primary water distribution agency in the Los Angeles Basin, has instituted a voluntary 10% water conservation plan. MWD advertises heavily in the local newspapers and distributes conservation material. In view of this, the Branch recommends no additional conservation measures be required at this time of CWC.

As of December 31, 1988, CWC's balancing account for purchased water shows a net undercollection of \$24,699 representing more than 2% of the present revenue. Pursuant to the Commission's "Procedure for Maintaining Balancing Accounts for Water Utilities", the Branch recommends that the undercollections be amortized over a period of 12-months.

CWC currently has two rate schedules: Schedule No. 1, Metered Service; and Schedule No. 4, Private Fire Protection Service. The present metered schedule consists of a service charge determined by meter size, and two quantity rate blocks. Meters are read and bills are rendered every two months.

By Decision 86-05-064 the Commission adopted a policy calling for recovery of up to 50% of a water company's fixed expenses through service charges. The policy also calls for phasing out lifeline rates and encourages the reduction of multiple blocks to a single block. The rates proposed by the Branch, included here as Appendix B, were designed to comply with the Commission's rate design policy.

The Branch's recommended private fire protection tariff was designed by increasing the present rates by the system average increase.

The Branch recommends that the Commission authorize an increase in gross revenue of \$63,839, or 10.1% in 1990. This increase provides an 11.00% rate of return on rate base in test year 1990.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a metered customer with a 5/8 x 3/4-inch meter using the system average of 1,700 cubic feet of water per month would increase from \$17.47 to \$19.45 or 11.4% in 1990. A comparison of present and recommended rates is shown in Appendix C.

FINDINGS

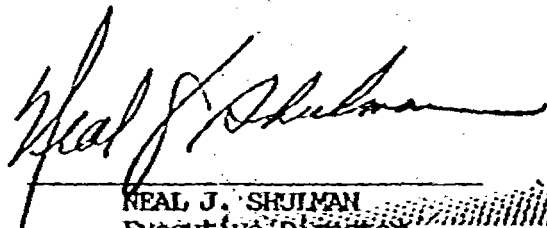
1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. CWC's balancing account undercollection of \$24,699 should be amortized over a 12-month period.
5. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for County 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 respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1 and 4. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on July 18, 1990. The following Commissioners approved it:

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


NEAL J. SHUMAN
Executive Director

APPENDIX A

COUNTY WATER COMPANY
SUMMARY OF EARNINGS
Test Year 1990

Item	: Utility Estimated : : Present : Requested : : Rates : Rates :	: Branch Estimated : : Present : Requested : : Rates : Rates :	: Adopted : : Rates :
<u>Operating Revenue</u>			
Metered	\$535,280	\$639,550	\$580,066
Private Fire	1,680	2,010	1,356
Other	50,960	50,960	50,960
Total	587,920	692,520	632,382
<u>Operating Expenses</u>			
Purchased Water	306,140	306,140	336,860
Other Vol Rel Exp	580	580	580
Employee Labor	42,080	42,080	42,080
Materials	13,070	13,070	8,410
Contract Work	17,960	17,960	4,070
Transportation	14,300	14,300	8,580
Other Plant Maint	2,890	2,890	740
Office Salaries	37,250	37,250	37,250
Mgmt Salary	21,300	21,300	21,300
Employee Pen & Ben	42,620	42,620	42,620
Uncollectibles	3,000	3,580	1,644
Office Svc & Rent	7,970	7,970	7,750
Office Suppl & Exp	11,220	11,220	11,220
Profess Svcs	5,940	5,940	5,940
Insurance	20,010	20,010	17,040
General Expenses	4,240	4,240	4,240
Subtotal	550,570	551,150	550,324
Depreciation Exp	28,300	28,300	28,300
Amortization	1,090	1,090	1,090
Ad Valorem Tax	6,070	6,070	5,700
Payroll Taxes	9,790	9,790	8,720
Other Taxes	10,710	12,790	11,672
Income Taxes	800	21,370	5,925
Total Deductions	607,330	630,560	611,731
<u>Net Revenue</u>	(19,410)	61,960	20,651
Average Plant	902,080	902,080	857,830
Avg. Depr. Reserve	325,080	325,080	315,295
Net Plant	577,000	577,000	542,535
Less: Contributions	48,030	48,030	48,430
Advances	23,290	23,290	23,290
Plus: Working Cash	65,730	65,730	118,550
Mat'l & Suppl	5,000	5,000	5,000
<u>Rate Base</u>	576,410	576,410	594,365
<u>Rate of Return</u>	Loss	10.75%	3.47%
			15.68%
			11.00%

COUNTY WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished to customers in the County system, Bellflower system, Suburban system and Lakewood system.

TERRITORY

Portions of Artesia, Bellflower, Lakewood, Norwalk, and vicinity, Los Angeles County.

RATES

Quantity Rate:		(T)
All water, per 100 cu.ft.	\$ 0.953	(C)

Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 3.25	(R)
For 3/4-inch meter	3.60	
For 1-inch meter	4.90	
For 1-1/2-inch meter	6.50	
For 2-inch meter	8.80	
For 3-inch meter	16.30	
For 4-inch meter	22.10	
For 6-inch meter	36.70	(R)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water computed at the Quantity Rates. (T)

SPECIAL CONDITIONS (N)

1. The established billing cycle for metered service is every two months. (N)
(N)
2. A surcharge of \$0.044 per 100 cu.ft. shall be added to the Quantity Rate for amortization of under collection in the balancing account for a period of one year following the effective date of this tariff. (N)
|
(N)
3. All bills are subject to reimbursement fee set forth on Schedule No. UF. (L)
(L)

COUNTY WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Portions of Bellflower, Norwalk and Artesia, and vicinity, Los Angeles County.

RATES

Per Month

For each 4-inch service connection	\$12.00	(I)
For each 6-inch service connection	17.60	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. All bills are subject to reimbursement fee set forth (L)
on Schedule No. UP. (L)

APPENDIX C

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COUNTY WATER COMPANY

COMPARISON OF RATESMETERED SERVICE

	Present Rate	Per Meter Per Month		Increase Percentage
		Recommended Rates	Amount	
<u>Quantity Charge:</u>				
First 300 cu.ft., per 100 cu.ft.	\$ 0.588	\$ 0.953	\$ 0.355	62.1%
Over 300 cu.ft., per 100 cu.ft.	0.879	0.953	0.074	8.4%

Monthly Quantity Charge at recommended rates does not include \$0.044 per 100 cu.ft. surcharge for amortization of undercollection in balancing account.

Service Charge:

For 5/8 x 3/4-inch meter ...	\$ 3.40	\$ 3.25	\$-0.15	-4.4%
For 3/4-inch meter ...	3.70	3.60	-0.10	-2.7%
For 1-inch meter ...	5.10	4.90	-0.20	-3.9%
For 1-1/2-inch meter ...	6.80	6.50	-0.30	-4.4%
For 2-inch meter ...	9.20	8.80	-0.40	-4.3%
For 3-inch meter ...	17.00	16.30	-0.70	-4.1%
For 4-inch meter ...	23.10	22.10	-1.00	-4.3%
For 6-inch meter ...	38.40	36.70	-1.70	-4.4%

PRIVATE FIRE PROTECTION SERVICE

For each 4-inch service connection	\$11.00	\$12.00	\$ 1.00	9.1%
For each 6-inch service connection	16.00	17.60	1.60	10.0%

Monthly bill for a typical residential customer with a 5/8 x 3/4-inch meter:

Usage 100 cu.ft.	Present Bill	Recommended Bill	Amount Increase	Percent Increase
0	\$ 3.40	\$ 3.25	\$-0.15	- 4.4
3	5.16	6.11	0.95	18.4
10	11.31	12.78	1.47	13.0
17 (avg.)	17.47	19.45	1.98	11.4
20	20.10	22.31	2.21	11.0
30	28.89	31.84	2.95	10.2
50	46.47	50.90	4.43	9.5

APPENDIX D

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COUNTY WATER COMPANY

ADOPTED QUANTITIES

Federal Tax Rate: Varies - See Tables
 State Tax Rate: 9.3%
 Local Franchise Tax Rate: 2%
 Business License: None
 Uncollectible Rates: 0.26%

	<u>Offset Item</u>		<u>Test Year 1990</u>		
1. Purchased Water:					
	Norwalk	S.C. Water Artesia	Lakewood	Bellflower	Total
Consumptn Ccf	362,460	45,464	11,423	148,950	568,297
Consumptn AF	832			342	
Rate	\$236.30	\$0.7530	\$0.7900	\$281.30	
Srvc Chrg		\$65.52x12			
Prchsd Wtr	\$196,624	\$35,021	\$9,024	\$96,188	\$336,857
					Call
					\$336,860
2. Pump Tax - Replenishment Tax:			None		
3. Payroll and Payroll Taxes:					
Operations and Maintenance			\$30,050		
Adm. and General			\$55,580		
Total Expensed Payroll			\$85,630		
Payroll Taxes			\$ 7,570		
4. Ad Valorem Taxes:			\$ 5,700		
Tax Rate:			1.052%		
Assessed Value			\$541,714		
5. Water Usage:					
Water Sold			556,445 Ccf		
Unaccounted Water		(2.13%)	11,852 Ccf		
Water Purchased			568,297 Ccf		
6. Water Testing (in Contract Work)			\$ 1,240		

APPENDIX D

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COUNTY WATER COMPANY

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Srvc Chrg		\$65.52x12			
Prchsd Wtr	\$196,624	\$35,021	\$9,024	\$96,188	\$336,857
					Call
					\$336,860
2. Pump Tax - Replenishment Tax:			None		
3. Payroll and Payroll Taxes:					
	Operations and Maintenance		\$ 42,080		
	Adm. and General		\$ 58,550		
	Total Expensed Payroll		\$100,630		
	Payroll Taxes		\$ 8,720		
4. Ad Valorem Taxes:			\$ 5,700		
	Tax Rate:		1.052%		
	Assessed Value		\$541,714		
5. Water Usage:					
	Water Sold		556,445 Ccf		
	Unaccounted Water	(2.13%)	11,852 Ccf		
	Water Purchased		568,297 Ccf		
6. Water Testing (in Contract Work)			\$ 1,240		