

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3950
November 8, 1995

R E S O L U T I O N

(RES. W-3950), SOUTHLAKE WATER COMPANY (SWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$14,120 OR 11% IN 1994
AND \$3,864 OR 2.7% IN 1995 AND A BIMONTHLY SURCHARGE
TO GENERATE ADDITIONAL ANNUAL REVENUES OF \$23,030 OR
15.7% FOR A PERIOD OF TWELVE MONTHS.

BY DRAFT ADVICE LETTERS ACCEPTED ON JANUARY 27, 1995.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$14,120, or 11.0% for test year 1994 and a Consumer Price Index (CPI) increase of \$3,864 or 2.7% as authorized by Decision (D.) 92-03-093 for small water utilities. The increases will provide a 14.25% rate of return on rate base. This resolution also grants SWC authority to collect a bimonthly surcharge of \$3,838 for a 12-month period from its customers to pay for the Department of Health Services Compliance Order and the Environmental Protection Agency's Phase II/V Water Quality regulation for water testing.

BACKGROUND

SWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$45,878 or 36.8% in 1994 and to impose a surcharge of \$34,915 or 28.0%. SWC's request shows 1994 gross revenue of \$124,581 at present rates increasing to \$170,532 at proposed rates to produce a rate of return on rate base of 11.3%. SWC presently serves about 510 metered and one flat-rate customer in the unincorporated community of Southlake on the south shore of Lake Isabella in Kern County.

The present rates became effective on August 6, 1993, pursuant to D.92-03-093, which authorized CPI-U increases. The last general rate increase became effective on August 8, 1990, pursuant to Resolution No. W-3508, which authorized a general rate increase of \$22,627 or 29.8%.

DISCUSSION

The Water Utilities Branch (Branch) made an independent analysis of SWC's summary of earnings and forwarded its Summary of Earnings to SWC on September 15, 1995. Appendix A shows SWC's and the Branch's estimated summaries of earnings at present, requested, and adopted rates for the test year 1994.

Appendix A also shows differences in operating revenues, operating expenses, and rate base.

SWC was informed of the Branch's differing views of revenues, expenses, and rate base and stated that it agreed with the Branch's findings.

During the Branch's field investigation of SWC's facilities, it was observed that the production meters ordered to be installed by Resolution W-3508 were not installed on two of SWC's four wells. The Branch also noted that an access door to deter unauthorized access to the ladder of the side of the storage tank should be installed. SWC now claims that these installations have been completed; however, by the time the Branch was notified of their completion, it was decided that, rather than to delay this resolution, SWC should be authorized to file an advice letter requesting recovery of their costs by rate base offset.

In Res. W-3508, SWC was ordered to record on its books of account the water plant-in-service and accumulated depreciation balances upon which the average amounts adopted in that resolution were based and to reflect those balances in its 1990 annual report to the Commission. In its investigation of this rate case, the Branch discovered that inconsistencies still existed; therefore, the Branch recommends that SWC once again be ordered to record on its books the current water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based and to reflect these balances in its 1995 annual report to the Commission. These balances are \$574,891 for total water plant in service and \$180,468 for accumulated depreciation as of December 31, 1994.

SWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 11.3%. The summary of earnings in Appendix A shows a rate of return of 14.25% in 1994 at the Branch's recommended rates. This rate of return is the midpoint of the 14.00% to 14.50% standard rate of return range recommended by the Finance Branch of the Commission Advisory and Compliance Division for Class D water utilities. Although SWC is technically a Class C water utility, the Branch recommends that it be allowed the Class D rate of return for this proceeding because it has just recently reached the threshold for Class C water utilities. The recommended rate of return is higher than that requested by SWC; however, it does not result in SWC receiving more revenue than it requested.

SWC files annual reports regularly and there are no outstanding Commission orders requiring improvements. SWC has not filed updated tariffs for its Title Page, Rule Nos. 2, 7, 10, 15, 16, 20, and 21, and its Connection Fee Data Form. Schedule No. 5, Public Fire Hydrant Service, is an obsolete schedule and should be deleted.

SWC's filed tariffs currently contain one rate schedule: Schedule No. 1, General Metered Service. SWC does not have a flat rate schedule even though it serves one customer at a flat rate. This customer has not been metered due to low water pressure problems. The Branch recommends that a flat rate schedule be established.

In keeping with current rate design policy as set by D.92-03-093 to allow the utility to recover up to 100% of its fixed costs through the service charges, the bulk of the increase has been applied to the service charges. The current service charge allocation by meter size does not comply with D.86-05-064; however, strict compliance with that decision would result in excessively large increases to the larger meter-sized customers. The Branch recommends that the increases in the service charges for those customers with meters greater than one-inch be phased in.

SWC also requested authority to impose a bimonthly surcharge to offset the Department of Health Services Compliance Order and the Environmental Protection Agency's Phase II/V Water Quality Regulation for one-time water testing cost. SWC bills its customers bimonthly, and the total surcharge SWC requested is \$34,915. The Branch could account for only \$26,323 of this amount and allocated another \$3,293 to water plant additions for rate base treatment. The Branch estimated a bimonthly surcharge of \$7.51 per customer for a period of 12 months to pay the remaining \$23,030.

The rates proposed by the Branch are included herein as Appendix B.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a typical metered customer using 1,000 cubic feet of water per month will increase from \$18.64 to \$21.20 in addition to the bimonthly surcharge of \$7.51 for a period of 12 months. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to each customer on November 30, 1994. The Branch received one letter protesting the rate increase request. The Commission's Consumer Affairs Branch has not received any complaints over the past year.

A public meeting was held on Monday, May 1, 1995, in the Kern River Valley Christian Church in Southlake. The Branch's representative explained Commission rate setting procedures, and the utility's representative explained the need for the rate increase. About 60 customers attended the meeting with their primary concern being the size of the request. Other complaints and comments were general in nature.

FINDINGS AND CONCLUSIONS

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. The rate increase authorized herein is justified, and the resulting rates are just and reasonable.
5. SWC should be authorized to file an advice letter requesting recovery of the reasonable costs associated with the installation of the production meters and the access door to the storage tank ladder.
6. SWC should file revised Title Page, Rule Nos. 2, 7, 10, 15, 16, 20 and 21 and the Connection Fee Data Form and request to delete Schedule No. 5.
7. SWC should be required to record on its books of account the water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based and to reflect those balances in its 1995 annual report to the Commission. Those balances are \$574,891 for total water plant in service and \$180,468 for accumulated depreciation as of December 31, 1994.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Southlake Water Company to file an advice letter incorporating the summary of earnings and the revised schedules (No. 1, General Metered Service and No. 2AR, General Flat Rate Service) attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule No. 1. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of its filing.
2. Southlake Water Company is authorized to file an advice letter requesting recovery of the reasonable costs of the installation of production meters and access door to the storage tank ladder.
3. Within 60 days of the effective date of this resolution, Southlake Water Company shall file updated Title Page, Rule Nos. 2, 7, 10, 15, 16, 20 and 21 and the Connection Fee Data Form and request elimination of Schedule No. 5.
4. Southlake Water Company shall record on its books of account the water plant in service and accumulated depreciation balances upon which the average amounts adopted in this resolution are based, and to reflect those balances in its 1995 annual report to the Commission. These balances are \$574,891 for total water plant in service and \$180,468 for accumulated depreciation as of December 31, 1994.

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Southlake Water Company/DR AL/RJT/RAJ:jlj

5. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on November 8, 1995. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Acting Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

APPENDIX A

SOUTHLAKE WATER COMPANY

SUMMARY OF EARNINGS
Test Year 1994

Item	Utility Estimated		Branch Estimated		Branch Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat Rate	\$ 227	\$ 300	\$220	\$1,150	250
Metered	124,354	170,232	128,680	176,330	142,770
Total Revenue	124,581	170,532	128,900	177,450	143,020
<u>Operating Expenses</u>					
Purchased Power	17,854	17,854	18,070	18,070	18,070
Other Vol Rel	0	0	740	740	740
Employee Labor	14,740	14,740	4,960	4,960	4,960
Materials	1,800	1,800	870	870	870
Contract Work	3,400	3,400	4,110	4,110	4,110
Transportation	1,650	1,650	1,650	1,650	1,650
Other Plant Maint	900	900	500	500	500
Office Salaries	13,250	13,250	8,100	8,100	8,100
Mgmt Salaries	30,000	30,000	20,000	20,000	20,000
Employee Benefits	1,450	1,450	1,450	1,450	1,450
Off Serv & Rentals	4,800	4,800	4,030	4,030	4,030
Office Supplies	3,750	3,750	2,450	2,450	2,450
Professional Serv	3,600	3,600	1,100	1,100	1,100
Insurance	7,324	7,324	6,870	6,870	6,870
Reg Comm Expense	0	0	960	960	960
General Expenses	400	400	610	610	610
Subtotal	104,918	104,918	76,470	76,470	76,470
Depreciation	11,978	11,978	11,300	11,300	11,300
Non Income Tax	12,794	12,794	8,880	8,880	8,880
Income Taxes	800	8,675	7,390	20,840	10,620
Total Deductions	130,490	138,365	104,040	117,490	107,270
<u>Net Revenue</u>	(5,909)	32,167	24,860	59,960	35,750
<u>Rate Base</u>					
Average Plant	601,734	601,734	574,890	574,890	574,890
Average Dep Res	175,157	175,157	174,820	174,820	174,820
Net Plant	426,577	426,577	400,070	400,070	400,070
<u>Less Advances</u>	48,391	48,391	48,390	48,390	48,390
Contributions	108,383	108,383	108,380	108,380	108,380
<u>Plus Working Cash</u>	14,862	14,862	8,150	5,910	7,620
<u>Rate Base</u>	284,665	284,665	251,440	249,210	250,910
<u>Rate of Return</u>	(2.076%)	11.3%	9.89%	24.06%	14.25%

APPENDIX B
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SOUTHLAKE WATER COMPANY

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Southlake and vicinity located immediately south of State Highway 178, approximately four miles west of Weldon in Kern County.

RATES

Quantity Rate:

All water, per 100 cu. ft.	\$ 1.30	(I)
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Service Charges:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 8.20	(I)
For 3/4-inch meter	12.30	
For 1-inch meter	15.20	
For 1-1/2-inch meter	27.00	
For 2-inch meter	36.40	
For 3-inch meter	123.00	
For 4-inch meter	205.00	

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 used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills are subject to a bimonthly surcharge of \$7.51 per customer for a period of twelve months from the effective date of Advice Letter No. _____. This surcharge offsets the Department of Health Services' compliance order and the Environmental Protection Agency's Phase II/V Water Quality regulations for water testing. (N)
2. All bills are subject to the reimbursement fee as set forth in Schedule No. UP. (L)
(L)
(D)

APPENDIX B
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SOUTHLAKE WATER COMPANY

Schedule No. 2AR

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Southlake and vicinity located immediately south of State Highway 178, approximately four miles west of Weldon in Kern County.

RATE

	<u>Per Service Connection</u> <u>Per Month</u>
For each service connection	\$ 22.00

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills are subject to a bimonthly surcharge of \$7.51 per customer for a period of twelve months from the effective date of Advice Letter No. _____. This surcharge offsets the Department of Health Services' compliance order and the Environmental Protection Agency's Phase II/V Water Quality regulations for water testing.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at the option of the utility, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.
4. The established billing cycle is bimonthly, i.e. every two months.
5. All bills are subject to the reimbursement fee as set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

SOUTHLAKE WATER COMPANY

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates 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>	
For 5/8 x 3/4-inch meter	\$ 6.74	\$ 8.20	21.7%
For 3/4-inch meter	7.43	12.30	65.5
For 1-inch meter	10.11	15.20	50.3
For 1-1/2-inch meter	13.48	27.00	100.3
For 2-inch meter	18.20	36.40	100.0
For 3-inch meter	33.69	123.00	265.1
For 4-inch meter	45.81	205.00	347.5

Quantity Rates:

Per 100 cu.ft	1.19	1.30	9.2%
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FLAT RATE SERVICE

Per Service Connection Per Month

<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
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For each service connection	\$18.92	\$22.00	16.3%
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A comparison of monthly bills for customers served by a 5/8 x 3/4-inch meter at present and Branch recommended rates under Schedule No. 1:

<u>Monthly Usage</u> <u>100 cu.ft.</u>	<u>Present Bills</u>	<u>Recommended Bills</u>	<u>Percent Increase</u>
0	\$ 6.74	\$ 8.20	21.7
3	10.31	12.10	17.4
5	12.69	14.70	15.8
10 Avg.	18.64	21.20	13.7
15	24.59	27.70	12.6
20	30.54	34.20	12.0
50	66.24	73.20	10.5

APPENDIX D
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SOUTHLAKE WATER COMPANY

ADOPTED QUANTITIES
Test Year 1994

Offset Items

1. Purchased Power

Vendor	SCEC
Rate Schedule	PA-1, TOU-ALMP-2
Effective Date	January 24, 1994
Monthly Rates	
Customer Charge:	\$ 15.20
Energy Charge:	1.75
Summer	0.08347
Winter	0.08934
Summer Quantity	218,890 kWh
Winter Quantity	93,570 kWh
Customer Charge Per Month	\$ 15.20
Total Purchased Power	\$ 18,070

2. Purchased Water

None

3. Payroll:

Management Salary	\$ 20,000
Office Salary	8,100
Employee Labor	4,960
Total	33,060

4. Ad Valorem Taxes:

Tax Rate	1.033404%
Assessed Value	\$268,346
Tax Paid	\$ 2,740

APPENDIX D
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SOUTHLAKE WATER COMPANY, INC.

ADOPTED QUANTITIES
Test Year 1994

1.	<u>Number of Services</u>		
	<u>Metered</u>		
	<u>Size of Meter</u>		
	1. <u>Meter Size</u>		
	5/8 x 3/4".....		502
	1".....		1
	1 1/2".....		2
	2".....		5
			Total 510
2.	<u>Flat Rate</u>		
	Flat Residential		1
	Total		511
3.	<u>Metered Water Sales - Ccf</u>		
	Total used to design metered rates		72,723

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APPENDIX D
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ADOPTED TAX CALCULATIONS
Test Year 1994

Federal Income Tax Rate:	15.0%
California Income Tax Rate	9.3%
Local Franchise Rate:	0.0%

<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1. Operating Revenues	\$143,020	\$143,020
2. O&M Expenses	76,470	76,470
3. Taxes Other Than Income	8,880	8,880
4. Depreciation	11,300	11,300
5. Interest Expense	0	0
6. Taxable Income for State Tax	46,370	
7. State Tax @ 9.3% (\$900 min.)	4,312	
8. Taxable Income for FIT		42,058
9. Federal Income Tax		6,309
10. Total Income Tax		10,620

(END OF APPENDIX D)