

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities Branch

RESOLUTION NO. W-3964\*  
January 10, 1996

R E S O L U T I O N

(RES. W-3964), PEERLESS WATER COMPANY, INC. (PWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING  
ADDITIONAL ANNUAL REVENUE OF \$42,957 OR 6.33% IN  
1995.

BY DRAFT ADVICE LETTER ACCEPTED ON OCTOBER 24, 1994.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$42,957 or 6.33% for test year 1995. The increase will provide an 11.65% rate of return on rate base in the test year.

BACKGROUND

PWC 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 \$44,748 or 7.0% in 1994. PWC's request shows 1994 gross revenue of \$638,721 at present rates increasing to \$683,469 in 1994 at proposed rates to produce a rate of return on rate base of 11.40%. PWC presently serves 2,001 metered rate customers and 2 recycled water customers in the Cities of Bellflower, Lakeview, and Paramount, Los Angeles County.

The last general rate increase was approved on August 7, 1991, by Resolution (Res.) W-3599, which authorized an increase of \$113,817 or 23.2%. Subsequent to its request for a general rate case, PWC received an offset rate increase of \$15,930 or 2.46% for increased power, purchased water, and groundwater assessment costs, approved by Res. W-3923 on June 21, 1995.

DISCUSSION

The Water Utilities Branch (Branch) made an independent analysis of PWC's summary of earnings and issued its report in December, 1995. Appendix A shows PWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for the test year 1995. Though the utility requested a 1994 test year, Branch added a 1995 test year because 1994 has passed. Because of higher estimated present revenues, Branch was able to estimate a 1995 test year without exceeding PWC's requested increase. The summary of earnings in Appendix A shows higher expenses for adopted test year 1995 rates than estimated for the 1994 test year. Branch applied standard escalation factors to estimate expenses in 1995.

Appendix A also shows differences between Branch and FWC in revenues and rate base. Revenue differences are primarily due to Branch's significantly higher estimate of water sales. FWC estimated water sales at the end of a six-year long drought, but the water sales increased substantially in 1994.

FWC was informed of the Branch's differing views of expenses and rate base and stated that it agreed with the Branch's findings. Following discussions between FWC and the Branch, both agreed to the summary of earnings as shown in the column headed "Adopted Rates".

FWC's draft advice letter requested rates which it estimated would produce a rate of return on rate base of 11.40%. The summary of earnings in Appendix A shows a rate of return of 11.65% at the Branch's recommended rates. This is the high point of the range of rate of return recommended by the Finance Branch in its November 28, 1995 memorandum to the Branch. Branch recommends a return on the higher end of the recommended range because FWC is an extremely well-run company and because it is an extremely small Class B company, facing many of the operating pressures of a Class C water utility. Although this rate of return exceeds FWC's requested rate, it does not result in FWC receiving a greater revenue increase than it has requested.

Branch also believes it is reasonable to allow FWC to file an advice letter to adjust its rates once each year to reflect increases in the Consumer Price Index. Branch believes that FWC shows characteristics similar to Class C water companies, especially since it is only three customers in excess of the limit for Class C. Branch recommends that the utility specifically be allowed to file using the same procedures and limitations in force for Class C and D water utilities. This assures that a CPI increase would not be granted if it would result in a rate of return higher than last authorized. This should have no effect on FWC's ability to file advice letters to recover increased costs of offsettable items such as water cost and power cost.

FWC files Annual Reports regularly, and there are no outstanding Commission orders requiring improvements.

FWC's filed tariffs currently contain two rate schedules: No. 1, General Metered Service, and No. 6, Reclaimed Water. The present service charges recover only 30% of the fixed costs. FWC requested that the service charge be set to more closely recover 50% of the fixed costs. FWC also requested that reclaimed water quantity charges be set lower than potable water quantity charges. Branch has no objections.

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

At the Branch's recommended rates shown in Appendix B, monthly bill for a 5/8 X 3/4 inch metered customer, using the average 13 Ccf per month, increases from \$24.88 to \$26.63 or 7.04%. Bills for the average user in larger service size classifications increase by approximately the same percentage. Reclaimed water customers' bills will decrease approximately 12.73%. 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 16, 1994. The Branch received one letter protesting the rate increase. The Commission's Consumer Affairs Branch has received 5 complaints from PWC's customers over the last three years but none in 1995.

A public meeting was held on December 14, 1994, at the Rotary Club Hall in Bellflower. The Branch's representative explained Commission rate setting procedures and the utility's representative explained the need for the rate increase. Five customers were present at the meeting. One customer spoke at length about perceived water quality problems. Mr. Zastrow, owner of PWC, explained that all testing showed levels within required limits, and that there may have been a typographical error in one value. Subsequent to the meeting, Mr. Zastrow indicated that he spoke with the concerned customer and gave him a revised testing statement.

#### 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. PWC should be authorized to file an advice letter once each year in 1996 and 1997 for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U) announced by the Bureau of Labor Statistics of the U. S. Department of Labor. No CPI-U increase will be granted if projected revenues from the increase exceeds the rate of return authorized in this Resolution.

#### IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Peerless Water Company, Inc. to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedule Nos. 1 (General Metered Service), and 6, (Reclaimed Water Service). 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. PWC should be authorized to file an advice letter once each year in 1996 and 1997 for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U) announced by the Bureau of Labor Statistics of the U. S. Department of Labor. No CPI-U increase will be granted if projected revenues from the increase exceeds the rate of return authorized in this Resolution.

3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on January 10, 1996. The following Commissioners approved it:

*Wesley Franklin*

WESLEY M. FRANKLIN  
Executive Director

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

|                            | Utility Estimated |                   | Branch Estimated |                   | Test Year<br>1995<br>Recommended |
|----------------------------|-------------------|-------------------|------------------|-------------------|----------------------------------|
|                            | Present<br>Rates  | Proposed<br>Rates | Present<br>Rates | Proposed<br>Rates |                                  |
| <b>Operating revenues</b>  |                   |                   |                  |                   |                                  |
| Metered                    | \$597,499         | \$642,288         | \$638,244        | \$682,374         | \$682,862                        |
| Other Water Service        | 33,936            | 33,936            | 29,280           | 29,280            | 29,280                           |
| Misc. Water Service        | 1,912             | 1,912             | 1,835            | 1,835             | 1,835                            |
| Recycled Water             | 5,374             | 5,333             | 8,934            | 9,552             | 7,273                            |
| Total                      | 638,721           | 683,469           | 678,293          | 723,041           | 721,250                          |
| <b>Operating Expenses:</b> |                   |                   |                  |                   |                                  |
| Purchased Water            | 72,530            | 72,530            | 82,271           | 82,271            | 82,271                           |
| Purchased Power            | 44,628            | 44,628            | 43,851           | 43,851            | 43,851                           |
| Other Volume Related       | 108,690           | 108,690           | 125,536          | 125,536           | 125,647                          |
| Employee Labor             | 80,605            | 80,605            | 80,605           | 80,605            | 82,781                           |
| Materials                  | 15,500            | 15,500            | 15,000           | 15,000            | 15,315                           |
| Contract Work              | 12,400            | 12,400            | 12,084           | 12,084            | 12,338                           |
| Transportation             | 12,793            | 12,793            | 11,100           | 11,100            | 11,333                           |
| Other plant maintenance    | 180               | 180               | 180              | 180               | 184                              |
| Office Salaries            | 57,595            | 57,595            | 57,595           | 57,595            | 59,150                           |
| Management Salaries        | 69,735            | 69,735            | 69,735           | 69,735            | 71,618                           |
| Employee Benefits          | 27,575            | 27,575            | 27,575           | 27,575            | 28,320                           |
| Office Services and Rent   | 9,830             | 9,830             | 10,000           | 10,000            | 10,210                           |
| Office Supplies and Expns  | 20,230            | 20,230            | 23,000           | 23,000            | 23,483                           |
| Professional Services      | 4,250             | 4,250             | 4,330            | 4,330             | 4,447                            |
| Insurance                  | 34,250            | 34,250            | 32,900           | 32,900            | 34,798                           |
| General Expenses           | 6,730             | 6,730             | 6,730            | 6,730             | 6,871                            |
| Uncollectibles             | 1,000             | 1,100             | 1,000            | 1,100             | 1,123                            |
| Total                      | 578,521           | 578,621           | 603,492          | 603,592           | 613,740                          |
| Depreciation Expense       | 25,402            | 25,402            | 24,845           | 24,845            | 25,073                           |
| Property Taxes             | 3,170             | 3,170             | 3,329            | 3,329             | 3,329                            |
| Payroll Taxes              | 16,636            | 16,636            | 16,636           | 16,636            | 16,948                           |
| Other Taxes and Licenses   | 4,036             | 4,036             | 3,637            | 3,637             | 3,637                            |
| Income Taxes               | 800               | 9,103             | 4,145            | 15,062            | 11,073                           |
| Total Deductions           | 628,565           | 636,968           | 656,084          | 667,101           | 673,800                          |
| Net Revenue                | 10,156            | 46,501            | 22,209           | 55,940            | 47,450                           |
| Average Plant              | 823,600           | 823,600           | 825,009          | 825,009           | 832,223                          |
| Average Deprac. Reserve    | 504,482           | 504,482           | 504,203          | 504,203           | 520,381                          |
| Net Plant                  | 319,118           | 319,118           | 320,806          | 320,806           | 311,842                          |
| Less: Advances             | 0                 | 0                 | 0                | 0                 | 0                                |
| Contributions              | 10,398            | 10,398            | 10,097           | 10,097            | 9,629                            |
| Plus: Working Cash         | 96,420            | 96,420            | 100,599          | 100,599           | 102,290                          |
| Matl & Suppl               | 2,780             | 2,780             | 2,780            | 2,780             | 2,780                            |
| Rate Base                  | 407,920           | 407,920           | 414,088          | 414,088           | 407,283                          |
| Rate of Return             | 2.49%             | 11.40%            | 5.36%            | 13.51%            | 11.65%                           |

APPENDIX B  
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Peerless Water Company

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered potable water service.

(T)

TERRITORY

Within the Cities of Bellflower, Lakewood, and Paramount, Los Angeles County.

RATES

Quantity Rate:

All water, per 100 cu. ft..... \$ 1.38 (R)

Service Charge:

Per Meter Per Month

|                             |         |     |
|-----------------------------|---------|-----|
| For 5/8x3/4-inch meter..... | \$ 8.45 | (I) |
| For 3/4-inch meter.....     | 12.67   |     |
| For 1-inch meter.....       | 21.12   |     |
| For 1-1/2-inch meter.....   | 42.25   |     |
| For 2-inch meter.....       | 67.60   |     |
| For 3-inch meter.....       | 126.75  | (I) |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity rate.

SPECIAL CONDITIONS

1. The established billing cycle is every two months. (D)
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (D)

APPENDIX B  
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Peerless Water Company

Schedule No. 6

Reclaimed Water Tariff Schedule  
METERED SERVICE

APPLICABILITY

Applicable to all reclaimed water service.

TERRITORY

Within the Cities of Bellflower, Lakewood, and Paramount, Los Angeles County.

RATES

Quantity Rate:

All water, per 100 cu. ft..... \$0.83 (R)

Service Charge

Per Meter Per Month

|                             |         |     |
|-----------------------------|---------|-----|
| For 5/8x3/4-inch meter..... | \$ 8.45 | (I) |
| For 3/4-inch meter.....     | 12.67   |     |
| For 1-inch meter.....       | 21.12   |     |
| For 1-1/2-inch meter.....   | 42.25   |     |
| For 2-inch meter.....       | 67.60   |     |
| For 3-inch meter.....       | 126.75  | (I) |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity rate.

SPECIAL CONDITIONS

1. All users shall be approved to use reclaimed water by this utility and the Los Angeles County Department of Health Services.
2. By reason of circumstances beyond the control of the utility or for the protection of the public health, safety, and welfare of the users, service may be interrupted on a temporary basis. Reclaimed water will be supplied only as available from the Central Basin Municipal Water District.

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Graeagle Water Company

COMPARISON OF RATES

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

METERED SERVICE

|                        | <u>Per Meter Per Month</u> |                          | <u>Percent Increase</u> |
|------------------------|----------------------------|--------------------------|-------------------------|
|                        | <u>Present Rates</u>       | <u>Recommended Rates</u> |                         |
| For 5/8x3/4-inch meter | \$ 6.25                    | 8.45                     | 35.20%                  |
| For 3/4-inch meter     | 9.40                       | 12.67                    | 34.79%                  |
| For 1-inch meter       | 15.60                      | 21.12                    | 35.38%                  |
| For 1-1/2-inch meter   | 31.25                      | 42.25                    | 35.20%                  |
| For 2-inch meter       | 50.00                      | 67.60                    | 35.20%                  |
| For 3-inch meter       | 93.75                      | 126.75                   | 35.20%                  |

Quantity Rates:

|                     |          |         |         |
|---------------------|----------|---------|---------|
| Per 100 cu. ft..... | \$ 1.414 | \$ 1.38 | (2.40%) |
|---------------------|----------|---------|---------|

Usage for an average residential customer on a 5/8 x 3/4-inch service connection using the system average of 158 Ccf per year:

| <u>Usage</u>       | <u>Present Bills</u> | <u>Recommended Bills</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|--------------------|----------------------|--------------------------|------------------------|-------------------------|
| 100 cu. ft.<br>158 | \$298.52             | \$319.54                 | \$21.02                | 7.04%                   |

Usage for a customer on a 3 inch service connection using 2,371 Ccf per year:

| <u>Usage</u>         | <u>Present Bills</u> | <u>Recommended Bills</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|----------------------|----------------------|--------------------------|------------------------|-------------------------|
| 100 cu. ft.<br>2,371 | \$4,477.77           | \$4,793.15               | \$ 315.38              | 7.04%                   |

(continued)



APPENDIX C  
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Peerless Water Company

COMPARISON OF RATES

RECLAIMED WATER SERVICE

|                              | <u>Per Meter Per Month</u> |                          | <u>Percent Increase</u> |
|------------------------------|----------------------------|--------------------------|-------------------------|
|                              | <u>Present Rates</u>       | <u>Recommended Rates</u> |                         |
| For 5/8x3/4-inch meter ..... | \$ 6.25                    | 8.45                     | 35.20%                  |
| For 3/4-inch meter .....     | 9.40                       | 12.67                    | 34.79%                  |
| For 1-inch meter .....       | 15.60                      | 21.12                    | 35.38%                  |
| For 1-1/2-inch meter .....   | 31.25                      | 42.25                    | 35.20%                  |
| For 2-inch meter .....       | 50.00                      | 67.60                    | 35.20%                  |
| For 3-inch meter .....       | 93.75                      | 126.75                   | 35.20%                  |
| For 4-inch meter .....       | 156.25                     | 211.25                   | 35.20%                  |

Quantity Rates:

|                     |          |         |          |
|---------------------|----------|---------|----------|
| Per 100 cu. ft..... | \$ 1.136 | \$ 0.83 | (26.93%) |
|---------------------|----------|---------|----------|

Usage for an average 2" reclaimed water customer using 3,404 Ocf per year:

| <u>Usage</u>         | <u>Present Bills</u> | <u>Recommended Bills</u> | <u>Amount Increase</u> | <u>Percent Increase</u> |
|----------------------|----------------------|--------------------------|------------------------|-------------------------|
| 100 cu. ft.<br>3,404 | \$4,466.94           | \$3,636.52               | (\$830.42)             | (12.73%)                |

APPENDIX D  
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Peerless Water Company, Inc.

ADOPTED QUANTITIES  
Test Year 1995

Expenses:

|                              |                      |                            |
|------------------------------|----------------------|----------------------------|
| 1. Purchased power           |                      |                            |
| Vendor                       |                      | Southern California Edison |
| Schedules                    |                      | PA-1                       |
| Effective Date               |                      | January 1, 1995            |
| Energy Charge, per kWh       | \$0.09768            |                            |
| Energy Tax, per kWh          | \$0.0002             |                            |
| Consumption, kWh             | 323,295              |                            |
| Total Power Cost             | \$43,851             |                            |
| 2. Purchased water (Potable) |                      |                            |
| City of Bellflower           | 130 AF at \$497/AF   |                            |
|                              | 20 AF at \$471/AF    |                            |
| Monthly Charge               | \$1,704/year         |                            |
| Central Basin MWD            |                      |                            |
| Monthly Charge               | \$2,184/year         |                            |
| Park Water Standby Charge    | \$300                |                            |
| Purchased water (Reclaimed)  |                      |                            |
| Central Basin MWD            | 15.59 AF at \$260/AF |                            |
| Total Purchased Water        | \$82,271             |                            |
| 2. A. Groundwater Assessment | 742 AF at \$162/AF   |                            |
| Total Groundwater Assessment | \$120,255            |                            |
| 3. Insurance Expenses        |                      |                            |
| General Liability Insurance  | \$29,243             |                            |
| Worker's Compensation        | \$ 5,555             |                            |
| Total Cost                   | \$34,798             |                            |
| 4. Ad Valorem Taxes          | \$3,329              |                            |
| Composite Tax Rate           | 1.00%                |                            |
| Assessed Value               | \$332,900            |                            |
| 5. Payroll Taxes             |                      |                            |
| Medicare                     | 1.45%                | \$3,015.06                 |
| Federal Unemployment         | 0.80%                | 280.00                     |
| State Unemployment           | 2.80%                | 980.00                     |
| State Training               | 0.10%                | 35.00                      |
| FICA                         | 6.20%                | 12,325.60                  |
| Total Payroll Taxes          |                      | 16,948                     |

APPENDIX D  
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Peerless Water Company, Inc.

ADOPTED QUANTITIES  
Test Year 1995

6. Water Testing Expenses (In Acct 650-1)      \$8,252

Service Connections

Metered

|                    |       |
|--------------------|-------|
| 5/8 x 3/4" service | 1,928 |
| 3/4" service       | 50    |
| 1" service         | 6     |
| 1-1/2" service     | 5     |
| 2" service         | 10    |
| 3" service         | 1     |
| 4" service         | 0     |

Total Metered      2,000

Reclaimed

|            |   |
|------------|---|
| 2" service | 2 |
|------------|---|

Total Reclaimed      2

APPENDIX D  
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Peerless Water Company, Inc.

ADOPTED TAX CALCULATIONS  
Test Year 1995

| <u>Line No.</u> | <u>Item</u>  | <u>State Tax</u> | <u>Federal Tax</u> |
|-----------------|--|------------------|--------------------|
| 1.              | Operating Revenue  | \$721,250        | \$721,250          |
| 2.              | O & M Expenses   | 613,740          | 613,740            |
| 3.              | Taxes Other Than Income                                      | 20,277           | 20,277             |
| 4.              | Depreciation   | 25,073           | 25,073             |
| 5.              | Interest   | 11,895           | 11,895             |
| 6.              | Taxable Income for State Tax                                 | 50,265           |                    |
| 7.              | State Tax  | 4,675            | 4,675              |
| 8.              | Taxable Income for FIT                                       |                  | 45,590             |
| 9.              | Federal Income Tax   |                  | 6,398              |
| 10.             | Total Income Tax   |                  | \$11,073           |
|                 | California Corporate Franchise Rate                          | 9.3%             |                    |
|                 | Federal Income Tax Rates<br>On first \$50,000 taxable income | 15%              |                    |