

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4023
February 5, 1997

RESOLUTION

**(RES. W-4023), MOUNTAIN WATER COMPANY (MWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$53,963 or 35.09% IN 1997.**

BY DRAFT ADVICE LETTER FILED ON SEPTEMBER 27, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$53,963 or 35.09% for test year 1997. The increase will provide a 10% rate of return on rate base in the test year.

BACKGROUND

MWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$92,512 or 62.8% in 1997. MWC's request shows 1997 gross revenues of \$147,377 at present rates would increase to \$239,889 at proposed rates.

MWC presently provides service to approximately 258 metered customers in a service area which is located approximately 1 ½ miles west of Downtown Banning, Riverside County. MWC's also provides service to High Valleys Water District, a public agency located in an unincorporated region south of Banning, Riverside County.

The present rates were established on January 11, 1996 pursuant to a Consumer Price Index increase, which authorized a rate increase of \$3,400 or 2.7%. The last general rate increase became effective on March 31, 1992 pursuant to Resolution (R.) W-3635 which authorized a general rate increase of \$28,857 or 23.37%, and a rate or return of 5.16%.

DISCUSSION

The Small Water Branch made an independent analysis of MWC's operations and issued its report in January, 1997. Appendix A shows MWC's and the Branch's estimates of the summary of earnings at present, requested and recommended rates. Appendix A shows differences between MWC's and the Branch's estimates in revenues, operating expenses and rate base.

MWC was informed of the Branch's differing views of revenues, operating expenses and rate base and stated that it accepts the Branch's estimates.

MWC's draft advice letter requested rates that it estimated would produce a return on rate base of 10%. The Summary of Earnings in Appendix A shows a rate of return of 10% at Branch's recommended rates. Although this rate of return falls below the range of 12.75% and 13.75% recommended by the Accounting and Finance Branch of the Commission's Water Division for Class D Water Utilities, MWC has requested that the rate of return not exceed 10%. The Branch concurs.

Under guidelines established in D. 92-03-093, the Commission staff must calculate net revenues by both the rate base/return method and the operating ratio method, selecting the method that produces the most revenue. Using a 20% operating ratio in the operating ratio method calculation, the rate base/return method produces greater revenue in this case.

MWC's filed tariff currently contains one rate schedule: Schedule No. 1, Metered Service.

In order to explain Branch's rate design recommendation, it is necessary to mention that application for the sale of MWC to the City of Banning is currently pending with the Commission (A96-07-037). At this time, Branch believes the application will be approved by the Commission and the sale will take place. The City of Banning proposes to charge MWC customers the same rates it currently charges its residential customers.

MWC's present rates recover 33% of fixed costs through the service charges. Current rate design policy allows Class D water Utilities to recover up to 100% of its fixed costs through the service charge. The Branch's proposed rates, however, keep the 33% recovery of fixed costs in the service charge because they are almost identical to present residential rates charged by City of Banning. The Branch feels that by keeping recovery to 33%, there will be less confusion for ratepayers when the sale takes place.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a typical 1-inch metered customer using 1700 Ccf of water will increase from \$21.43 to \$28.96 or 35.11%. 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 1, 1996. Eight letters protesting the increase were received by the Branch. They all protested the magnitude of the rate increase requested. The Consumer Affairs Branch (CAB) reports that it has received fourteen complaints against MWC since the beginning of 1991. There were two service complaints and the rest dealt with bills and other miscellaneous non-service problems. All complaints were responded to and resolved immediately.

A public meeting was held on December 5, 1996, at the Monte Vista SDA School located in the MWC Service Area. The date, time and location of the meeting were specified in the Notice of Proposed Rate Increase mailed to each customer on November 1, 1996. The Branch representative explained Commission rate setting procedure and the utility's representative explained the need for the rate increase. Approximately 70 customers attended the meeting and about 20 individuals made statements, asked questions, registered complaints or made miscellaneous comments related to utility operations. All customers who spoke protested the magnitude of the increase requested.

Several customers expressed concerns that the large rate increase was being requested to offset costs of operating the Dysart Ranch and to pay for the installation of water utility plant that was to serve and solely benefit the Dysart family (who own the water system). The Branch's recommendation in this resolution excludes both expenses associated with the operation of the Dysart Ranch and the return on any water plant investment that serves and solely benefits the Dysart family. There were no service complaints expressed at the meeting.

FINDINGS AND CONCLUSIONS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed 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 proposed by the Branch 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 Mountain Water Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendix A and B respectively, and concurrently to cancel its presently effective rate Schedules No. 1 (Metered 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.

Resolution W-4023
Mountain Water Co./DR AI/ABJ/TAC/lj

2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 5, 1997. The following Commissioners approved it:


WESLEY M. FRANKLIN
Executive Director

P. GREGORY CONLON
President
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

APPENDIX A
 MOUNTAIN WATER COMPANY
 SUMMARY OF EARNINGS

Test Year 1997

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
Metered	\$147,377	\$239,889	\$153,774	\$207,737	\$207,737
Operating Expenses					
Power	46,517	46,517	46,517	46,517	46,517
Employee Labor	27,930	27,930	21,634	21,634	21,634
Materials	11,913	11,913	9,141	9,141	9,141
Contract Work	9,070	9,070	9,070	9,070	9,070
Transportation Exp.	278	278	90	90	90
Other Plant Maint.	6,940	6,940	4,760	4,760	4,760
Office Salaries	8,486	8,486	8,486	8,486	8,486
Management Salaries	37,440	37,440	34,500	34,500	34,500
Office Serv. & Rent	681	681	393	393	393
Office Suppl. & Exp.	2,342	2,342	1,400	1,400	1,400
Professional Services	5,725	5,725	5,725	5,725	5,725
Insurance	4,236	4,236	4,168	4,168	4,168
Regulatory Comm. Exp.	1,999	1,999	0	0	0
General Expenses	3,208	3,208	3,208	3,208	3,208
Subtotal	\$166,765	\$166,765	\$149,092	\$149,092	\$149,092
Depreciation Expense	\$12,835	\$12,835	\$8,868	\$8,868	\$8,868
Property Taxes	1,498	1,498	1,498	1,498	1,498
Payroll Taxes	6,994	6,994	6,287	6,287	6,287
Permits	63	63	63	63	63
Income Taxes	800	11,850	800	9,604	9,604
Total Deductions	\$188,955	\$200,005	\$166,608	\$175,412	\$175,412
Net Revenue	(Loss)	\$39,884	(Loss)	\$32,325	\$32,325
Rate Base					
Average Plant	552,170	552,170	452,170	452,170	452,170
Avr. Accum. Deprec.	167,101	167,101	141,341	141,341	141,341
Net Plant	385,069	385,069	310,829	310,829	310,829
Less: Contributions	0	0	0	0	0
Plus: Working Cash	13,772	13,772	12,424	12,424	12,424
Rate Base	\$398,841	\$398,841	\$323,253	\$323,253	\$323,253
Rate of Return	(Loss)	10.00%	(Loss)	10.00%	10.00%

APPENDIX B

MOUNTAIN WATER COMPANY

Schedule No.1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Banning, Riverside County.

RATES

Quantity Rate:	Per Meter Per Month	
All Water used per 100 cu. ft.....	\$0.865	(1)
Service Charge:		
For 3/4-inch meter	\$8.55	(1)
For 1-inch meter	\$14.25	
For 1-1/2 inch meter	\$28.50	
For 2-inch meter	\$45.61	
For 3-inch meter	\$85.51	
For 4-inch meter	\$142.52	
For 5-inch meter	\$286.17	(1)

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

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

MOUNTAIN WATER COMPANY

COMPARISON OF RATES

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

Monthly bill for a 1-inch metered customer:

Water Use in Ccf	Per Meter Per Month			
	Present Rates	Recommended Rates	Increase	
			Amount	Percent
0	\$10.55	\$14.25	\$3.70	35.07%
3	\$12.47	\$16.85	\$4.38	35.08%
10	\$16.95	\$22.90	\$5.95	35.10%
17	\$21.43	\$28.96	\$7.53	35.11%
30	\$29.75	\$40.20	\$10.45	35.13%
50	\$42.55	\$57.50	\$14.95	35.14%
75	\$58.55	\$79.13	\$20.58	35.14%

Monthly bill for a 2-inch metered customer:

Water Use in Ccf	Per Meter Per Month			
	Present Rates	Recommended Rates	Increase	
			Amount	Percent
0	\$33.75	\$45.61	\$11.86	35.14%
3	\$36.08	\$48.21	\$12.13	33.61%
10	\$41.51	\$54.26	\$12.75	30.72%
17	\$46.94	\$60.32	\$13.37	28.49%
30	\$57.03	\$71.56	\$14.53	25.46%
50	\$72.55	\$88.86	\$16.31	22.48%
75	\$91.95	\$110.49	\$18.54	20.16%
100	\$111.35	\$132.11	\$20.76	18.64%

(END OF APPENDIX C)

APPENDIX D
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MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES
Test Year 1997

Expenses:

1. Purchased power (Electric)

Vendor		Southern California Edison Company
Schedules		PA-1, GS-2
Effective Date		5/1/96
Total Cost (\$)		\$20,787
KWH Used		181,055
Customer Charge	PA-1	\$17.65
	GS-2	\$60.30

Vendor		City of Banning
Schedules		A-T.O.U., Commercial
Effective Date		11/24/94
Total Cost (\$)		\$25,730
KWH Used		323,893
Customer Charge	A-T.O.U.	\$0.00
	Commercial	\$9.00
Street Lighting	A-T.O.U.	\$5.60
	Commercial	\$2.60

2. Purchased water

None

3. Insurance Expenses

Liability/Property	\$2,595
Compensation	\$1,573
Total Cost	\$4,168

4. Ad Valorem Taxes

Composite Tax Rate	\$1,498
Assessed Value	1.1225%
	\$133,452

APPENDIX D
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MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES
Test Year 1997

5. Payroll Taxes		\$6,287
Social Security		\$4,943
Federal Unemployment		\$224
State Unemployment		\$1,092
State Unemployment Training		\$28
6. Number of Service Connections:		
Metered Size:		
3/4-inch meter	0	
1-inch meter	244	
1-1/2-inch meter	6	
2-inch meter	7	
4-inch meter	1	
Total	258	
7. Metered Water Sales, Ccf:		183,223

APPENDIX D
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MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES

Test Year 1997

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$207,737	\$207,737
2.	O & M Expenses	\$149,042	\$149,042
3.	Taxes Other Than Income	\$7,848	\$7,848
4.	Depreciation	\$8,868	\$8,868
5.	Taxable Income for State Tax	\$41,929	
6.	State Tax	\$3,899	
7.	Taxable Income for FIT		\$38,030
8.	Federal Income Tax		\$5,705
9.	Total Income Tax		\$9,604
	California Corporate Franchise Rate	9.30%	
	Federal Income Tax Rate	15%	

(END OF APPENDIX D)