

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4038
May 6, 1997

R E S O L U T I O N

(RES. W-4038), HAVASU WATER COMPANY (HWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL
ANNUAL REVENUES OF \$31,677 OR 53.07% IN 1997.

BY DRAFT ADVICE LETTER ACCEPTED ON SEPTEMBER 16, 1996.

SUMMARY

This Resolution grants an increase in gross annual revenues of \$31,677 or 53.07% for test year 1997. The increase will provide a 13.47% rate of return on rate base in the test year.

BACKGROUND

HWC 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 \$31,830 or 53.32% in 1997. HWC's request shows 1997 gross revenue of \$59,690 at present rates increasing to \$91,520 at proposed rates.

HWC presently provides service to approximately 600 residents through 203 meters in Havasu Landing and vicinity, San Bernardino County.

HWC's present rates were authorized by Resolution W-3911, dated March 22, 1995, which authorized a monthly surcharge to generate additional revenue of \$23,352 or 34% for a five-year period. HWC's last general rate increase was authorized by Resolution W-3520, dated September 25, 1990, which granted an increase of \$9,615 or 14.12%.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of HWC's operations and issued its report in April 1997. Appendix A shows HWC's and the Branch's estimated summary of earnings at present, requested, and adopted rates for the test year. Appendix A also shows differences in operating revenues, operating expenses, and rate base.

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

HWC's draft advice letter requested rates that it estimated would produce a return on rate base of 14.49%. The summary of earnings in Appendix A shows a rate of return of 13.47% at Branch's recommended rates. This rate of return is at the higher end of the range of 12.75% to 13.75% recommended by the Finance Branch of the Water Division for Class D water utilities. This rate is recommended because HWC is generally an efficiently operated small water utility. Under guidelines established in Commission Decision (D.) 92-03-093,

May 6, 1997

Commission staff must calculate net revenue by both the traditional 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 the greater revenue in this case.

HWC's filed tariffs currently contains one rate schedules: No. 1, General Metered Service. The Branch's proposed General Metered schedule shown in Appendix B, was derived by increasing the present rates by the system average increase authorized in this resolution. Branch's metered rate design also utilizes the "service charge allocation by meter size" ratios established in Branch's Rate Design Policy Memorandum dated January 18, 1991.

Some customers brought up the issue of rates for residences with fire sprinklers. Fire sprinklers require larger meters for standby in case of a fire. Other utilities have special rates for residential fire sprinkler customers. Although only four customers were affected at this time, the proposed rates would significantly increase their bills. The customers believed that had the utility provided sufficient fire flow then the sprinklers would not be required. The Branch recommends a residential fire sprinkler schedule with a charge of \$1.00 per month for standby sprinkler service and the meter charge to be that which would be necessary if the sprinklers were not present. In future rate proceedings, if the number of sprinklers or other factors warrant, the utility can provide a showing for different fire sprinkler rates.

At the Branch's recommended rates shown in Appendix B, the monthly bill for a 5/8 x 3/4-inch metered customer using 10.0 Ccf of water will increase from \$28.90 to \$39.65 or 37.1%. 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 26, 1996. Three letters protesting the rate increase were received by the Branch. One letter included a signed petition by 14 customers of the Mobile Homes Association. The Commission's Consumer Affairs Branch (CAB) has received 10 complaints over the last six years. They are as follows: 1991 - 1 high bill and 1 rules complaint; 1992 - 1 rate complaint and 2 rules complaint; 1993 - 1 miscellaneous complaint; 1995 - 2 deposit required and 2 rules complaints.

A public meeting was held on Friday, January 3, 1997, at the Havasu Senior Citizens Center located on the west part of town. The date, time and location of the meeting were specified in the notice of rate increase mailed to each customer on November 26, 1996. The Branch's representatives explained Commission rate-setting procedures and the utility's representatives explained the needs for the rate increase. Approximately 82 customers attended the meeting. Customers addressed various issues at the meeting. The issues included quality of water, the presence of sand and chlorine, possible rust in the pipes, alkaline, pump efficiency, meter sizes, flushing, discoloration, and leaks. Company representatives addressed each issue to a satisfactory

May 6, 1997

level and indicated that the rate increases were largely for new health department mandates.

The customers also brought up the issue of residential fire sprinklers and how the utility-proposed rates would significantly increase their bills. The Branch's representative said that residential fire sprinkler rates would be considered in the rate case process since other utilities have provisions for residential fire sprinkler rates.

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.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Havasu 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 No. 1, General 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.

May 6, 1997

2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on May 6, 1997. The following Commissioners approved it:

Wesley Franklin
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

Havasu Water Company

SUMMARY OF EARNINGS
 Test Year 1997

Item	: <u>Utility Estimated</u> :		: <u>Branch Estimated</u> :		: <u>Adopted</u> :
	: Present :	: Requested :	: Present :	: Requested :	
	: Rates :	: Rates :	: Rates :	: Rates :	: Rates :
<u>Operating Revenue</u>					
Metered Rate	\$ 59,690	91,520	59,690	91,520	91,367
Total Revenue	\$ 59,690	\$ 91,520	\$ 59,690	\$ 91,520	\$ 91,367
<u>Operating Expenses</u>					
Purchased Water	5,350	5,350	5,350	5,350	5,350
Purchased Power	11,710	11,710	11,710	11,710	11,710
Other Volume Related	0	0	0	0	0
Employee Labor	13,310	13,310	13,310	13,310	13,310
Materials	7,870	7,870	7,870	7,870	7,870
Contract Work	4,450	4,450	4,450	4,450	4,450
Water Testing	7,270	7,270	7,720	7,720	7,720
Transportation	1,900	1,900	1,900	1,900	1,900
Office Salaries	3,870	3,870	3,870	3,870	3,870
Management Salaries	7,950	7,950	7,950	7,950	7,950
Uncollectibles	0	0	0	0	0
Office Svcs. and Rent	0	0	0	0	0
Office Supplies	1,860	1,860	1,860	1,860	1,860
Professional Services	2,170	2,170	2,170	2,170	2,170
Insurance	1,470	1,470	1,470	1,470	1,470
Regulatory	1,740	1,740	1,740	1,740	1,740
General	230	230	230	230	230
Subtotal	\$ 71,150	\$ 71,150	\$ 71,150	\$ 71,150	\$ 71,150
Depreciation	\$ 4,037	\$ 4,037	\$ 4,830	\$ 4,830	\$ 4,830
Property Taxes	750	750	750	750	750
Income Taxes	800	3,569	800	3,388	3,353
Total Deductions	\$ 76,737	\$ 79,506	\$ 77,530	\$ 80,118	\$ 80,083
Net Revenue	(17,047)	12,010	(17,840)	11,402	11,284
<u>Rate Base</u>					
Average Plant	\$193,400	\$193,400	\$193,424	\$193,424	\$193,424
Average Dep. Reserve	94,700	94,700	93,839	93,839	93,839
Net Plant	98,700	98,700	99,585	99,585	99,585
Less: Advances	0	0	0	0	0
Contributions	22,240	22,240	22,238	22,238	22,238
Deferred Taxes	0	0	0	0	0
Plus: Construction work in progress	0	0	0	0	0
Mat'l. & Supplies	500	500	500	500	500
Working Cash	5,900	5,900	5,900	5,900	5,900
Rate Base	\$ 82,860	\$ 82,860	\$ 83,747	\$ 83,747	\$ 83,747
Rate of Return	-20.57%	14.49%	-12.3%	13.61%	13.47%

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tract Nos. 6493, 6494, 9595, 5986, 8284, and vicinity, and a 40-acre parcel about 3,000 feet to the north located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>		<u>Surcharge</u>
<u>Quantity Rate:</u>			
First 300 cu. ft., per 100 cu. ft.....	\$ 1.45	(I)	
Over 300 cu. ft., per 100 cu. ft.....	\$ 1.45	(I)	
<u>Service Charge:</u>			
For 5/8x3/4-inch meter.....	\$ 25.15	(I)	\$ 9.31
For 3/4-inch meter.....	37.75		10.19
For 1-inch meter.....	62.95		13.86
For 1-1/2-inch meter.....	125.85		18.18
For 2-inch meter.....	201.35		25.47
For 4-inch meter.....	377.50	(I)	54.76

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.

May 6, 1997

APPENDIX B

Schedule No. 1B

(N)

GENERAL METERED SERVICE WITH
AUTOMATIC FIRE SPRINKLER SYSTEM

APPLICABILITY

Applicable to all single family residences whose automatic fire sprinkler system is served through the meter providing residential water service.

TERRITORY

The area known as Tract Nos. 6493, 6494, 9595, 5986, 8284, and vicinity, and a 40-acre parcel about 3,000 feet to the north located near Havasu Landing, approximately 28 miles south of Needles, San Bernardino County.

RATES

	<u>Per Meter Per Month</u>	<u>Surcharge</u>
<u>Quantity Rate:</u>		
First 300 cu. ft., per 100 cu. ft.....	\$ 1.45	
Over 300 cu. ft., per 100 cu. ft.....	\$ 1.45	
<u>Sprinkler Standby Service</u>	\$ 1.00	
For the meter size that would be necessary, absent the sprinklers.		
<u>Service Charge:</u>		
For 5/8x3/4-inch meter.....	\$ 25.15	\$ 9.31
For 3/4-inch meter.....	37.75	10.19
For 1-inch meter.....	62.95	13.86
For 1-1/2-inch meter.....	125.85	18.18
For 2-inch meter.....	201.35	25.47
For 4-inch meter.....	377.50	54.76

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.

(N)

(END OF APPENDIX B)

May 6, 1997

APPENDIX C

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates for Havasu Water Company, Inc. is shown below:

METERED SERVICE

Service Charge:	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For 5/8x3/4-inch meter	\$ 17.00	\$ 25.15	47.94%
For 3/4-inch meter	18.60	37.75	102.96%
For 1-inch meter	25.30	62.95	148.81%
For 1-1/2-inch meter	33.20	125.85	279.07%
For 2-inch meter	46.50	201.35	333.01%
For 4-inch meter	100.00	377.50	277.50%

Quantity Rates:

First 300 cu. ft	\$ 0.93	\$ 1.45	55.91%
Over 300 cu. ft	\$ 1.19	\$ 1.45	21.84%

A comparison of monthly customers bills at present and Branch's recommended rates for 1995 test year for a 5/8 x 3/4"-inch meter is shown below:

<u>Consumption (Ccf)</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
0.0	\$17.00	\$25.15	47.94
3.0	19.79	29.50	49.06
5.0	22.95	32.40	41.17
10.0	28.90	39.65	37.19
20.0	40.80	54.15	32.72

May 6, 1997

APPENDIX D

Havasu Water Company

ADOPTED QUANTITIES
Test Year 1997

Expenses:

1. Purchased Power (Electric)	
Vendor	Southern California Edison
Schedules	PA 1, OL 1
Effective Date	Jan 1, 1996
Total Cost (\$)	\$ 11,710
kWh Used	85,112
Customer Charge	\$ 16.70 (per month)
Service Charge	\$ 1.95 (per HP/per month)
Energy Charge:	\$ 0.09768
2. Purchased Water	\$ 5,350
3. Insurance Expenses	\$ 1,520
4. Ad Valorem Taxes	\$ 750
Composite Tax Rate	1.000%
Assessed Value	\$ 750,000

Service Connections

Metered Rate

5/8x3/4-inch meter	190
3/4-inch meter	0
1-inch meter	3
1-1/2-inch meter	3
2-inch meter	<u>7</u>
Total	203
Total Metered Water Consumption	16,174 Ccf

(continued)

May 6, 1997

APPENDIX D

Havasu Water Company

ADOPTED TAX CALCULATIONS
Test Year 1997

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1.	Operating Revenue	\$ 91,367	\$ 91,367
2.	O & M Expenses	\$ 71,150	\$ 71,150
3.	Taxes Other Than Income	\$ 750	\$ 750
4.	Depreciation	\$ 4,830	\$ 4,830
5.	Taxable Income for State Tax	\$ 14,637	
6.	State Tax	\$ 1,361	
7.	Taxable Income for FIT		\$ 13,276
8.	Federal Income Tax		\$ 1,991
9.	Total Income Tax	\$ 3,353	

California Corporate Franchise Rate 9.3%

Federal Income Tax Rates

On first \$50,000 taxable income 15%
On next \$25,000 taxable income 25%
On next \$25,000 taxable income 34%

(END OF APPENDIX D)