

WATER/DRP:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Advisory Branch**

**RESOLUTION NO. W- 4171
November 18, 1999**

RESOLUTION

**(RES. W-4171) PEERLESS WATER COMPANY (PWC), ORDER
AUTHORIZING A GENERAL INCREASE IN RATES PRODUCING \$40,527
OR 4.96% ADDITIONAL ANNUAL REVENUE.**

SUMMARY

By Draft Advice Letter accepted on January 6, 1999, PWC seeks an increase in its rates for water service to earn a return on additions to plant and to recover increased expenses of operation. For Test Year 1999, this resolution grants an increase in gross annual revenues of \$40,527 or 4.96%, which is estimated to provide a 12.00% rate of return on ratebase.

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 by \$128,904 per year or 16.42% in 1999. PWC's request shows that its gross revenue of \$784,813 at present rates would increase to \$913,717 at proposed rates.

PWC's previous general increase in rates of \$42,957 or 6.33% was authorized by Resolution W-3964 on January 10, 1996, and included a return on rate base of 11.65%. Another increase in rates of \$20,798 or 3.0% was authorized by Resolution W-4102 on July 2, 1998, to cover the increased expense of purchasing water after the Department of Health Services ordered a contaminated well withdrawn from service.

PWC serves 2,006 customers in the cities of Bellflower, Lakewood, and Paramount in Los Angeles County.

DISCUSSION

The Water Advisory Branch (Branch) made an independent analysis of PWC's summary of earnings. Appendix A shows PWC's and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test year 1999. Appendix A also shows differences between PWC's and the Branch's estimates of revenues, operating expenses, and rate base. Primary differences are due to the Branch estimating more revenue from the leasing of unused water rights and estimating lower expense of Purchased Water. PWC was informed of Branch's differing views of expenses and ratebase and stated it agreed with the Branches findings.

PWC's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 10.91%. PWC is a very small Class B water utility. Branch recommended rates, therefore, for a Class C utility that would produce a rate of return on ratebase of 12.0%. This is appropriate for a reasonably well-managed water utility and is within the range of 12.0% to 13.0% recommended by the Commission's Audit and Enforcement Branch for Class C utilities that are 100% equity financed.

Branch also believes it is reasonable to allow PWC to file an advice letter to adjust its rates once each year to reflect increases in the Consumer Price Index. Branch believes that PWC 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 PWC's ability to file advice letters to recover increased costs of offsettable items such as water cost and power cost.

PWC's filed tariffs currently contains two schedules: General Metered Service and Reclaimed Water Service. At the Branch's recommended rates shown in Appendix B, the monthly bill for a residential customer with a 5/8 x 3/4 inch meter using an average of 15 hundred cubic feet (Ccf) will increase from \$30.08 to \$31.73. 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 increase in rates and notice of a public meeting was mailed to each customer on January 6, 1999. On January 27, 1999, the Branch held a public meeting in a community center in Bellflower. The Branch's representative explained the Commission's rate-setting procedure and the utility's representative explained the need for the increase. Approximately 40 people attended; most of whom were concerned with the requested increase in rates.

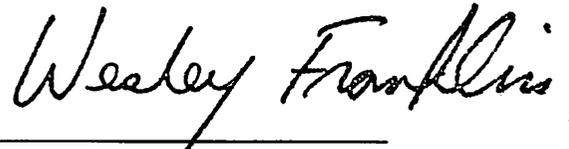
FINDINGS AND CONCLUSIONS

- a) The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b) The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
- c) The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
- d) The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
- e) PWC should be authorized to file an advice letter once each year in 2000 and 2001 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, 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 No. 1, General Metered Service, and Schedule No. 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 filing.
2. PWC should be authorized to file an advice letter once each year in 2000 and 2001 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 November 18, 1999. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners

APPENDIX A

Peerless Water Company, Inc.

SUMMARY OF EARNINGS

Test Year 1999

	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted Rates</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
<u>Operating Revenues</u>					
Metered	\$ 713,497	\$ 840,349	\$ 719,206	\$ 845,256	\$ 758,200
Other water Service	1,438	1,438	1,438	1,438	1,438
Misc. Water Service	56,640	56,640	86,800	86,800	86,800
Recycled Water	13,238	15,290	10,387	11,920	11,920
Total	\$ 784,813	\$ 913,717	\$ 817,831	\$ 945,414	\$ 858,358
<u>Operating Expenses:</u>					
Purchased Water	\$ 269,915	\$ 269,915	\$ 248,303	\$ 248,303	\$ 248,303
Purchased Power	33,997	33,997	33,027	33,027	33,027
Other Volume Related	6,557	6,557	6,557	6,557	6,557
Employee Labor	94,873	94,873	96,662	96,662	96,662
Materials	11,289	11,289	10,603	10,603	10,603
Contract Work	12,982	12,982	8,565	8,565	8,565
Transportation	12,175	12,175	11,468	11,468	11,468
Ground Water Assessment	77,628	77,628	68,110	68,110	68,110
Office Salaries	66,437	66,437	67,623	67,623	67,623
Management Salaries	80,788	80,788	82,485	82,485	82,485
Employee Benefits	30,136	30,136	31,961	31,961	31,961
Office Services and Rent	11,600	11,600	10,749	10,749	10,749
Office Supplies and Expns	25,765	25,765	22,750	22,750	22,750
Professional Services	22,292	22,292	10,500	10,500	10,500
Insurance	37,000	37,000	26,250	26,250	26,250
General Expenses	6,609	6,609	6,700	6,700	6,700
Uncollectibles	1,500	1,500	1,522	1,522	1,522
Subtotal	\$ 801,543	\$ 801,543	\$ 743,835	\$ 743,835	\$ 743,835
Depreciation Expense	\$ 27,265	\$ 27,265	\$ 27,321	\$ 27,321	\$ 27,321
Taxes Other than Income	24,994	24,994	24,994	24,994	24,994
Income Taxes	800	11,652	2,155	43,235	11,437
Total Deductions	\$ 854,602	\$ 865,454	\$ 798,305	\$ 839,385	\$ 807,587
Net Revenue	\$ (69,789)	\$ 48,263	\$ 19,526	\$ 106,029	\$ 50,771
Average Plant	\$ 896,594	\$ 896,594	\$ 890,494	\$ 890,494	\$ 890,494
Average Accum. Depreciation	581,884	581,884	588,371	588,371	588,371
Net Plant	314,710	314,710	302,123	302,123	302,123
Less: Advances	-	-	-	-	-
Contributions	7,783	7,783	6,831	6,831	6,831
Plus: Working cash	132,792	132,792	123,973	123,973	123,973
Mat'l & Supplies	2,854	2,854	2,854	2,854	2,854
Rate base	\$ 442,573	\$ 442,573	\$ 422,119	\$ 422,119	\$ 422,119
Rate of Return	(Loss)	10.91%	4.63%	25.12%	12.00%

(End of Appendix A)

APPENDIX B
Page 1 of 2

Peerless Water Company, Inc.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered potable water service.

TERRITORY

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

RATES

Quantity Rate

All water, per 100 cu. ft. \$ 1.53 (I)

Service Charge

Per Meter
Per Month

For 5/8x3/4-inch meter	\$ 8.75	(I)
For 3/4-inch meter	13.13	I
For 1-inch meter	21.88	I
For 1-1/2-inch meter	43.75	I
For 2-inch meter	70.00	I
For 3-inch meter	131.25	(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 subject to the reimbursement fee set forth in Schedule No. UF

APPENDIX B
Page 2 of 2

Peerless Water Company, Inc.

Schedule No. 6

RECLAIMED WATER SERVICE (T)

APPLICABILITY

Applicable to all reclaimed water service.

TERRITORY

Within the Cities of Bellflower, Lakewood, and Paramount, Los Angeles County, adjacent to the reclaimed water system owned and operated by the Central Basin Municipal Water District.

RATES

Quantity Rate

All water, per 100 cu. ft. \$ 0.98 (I)

Service Charge

Per Meter Per Month

For 5/8x3/4-inch meter	\$ 8.75	(I)
For 3/4-inch meter	13.13	I
For 1-inch meter	21.88	I
For 1-1/2-inch meter	43.75	I
For 2-inch meter	70.00	I
For 3-inch meter	131.25	(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.
3. Backflow prevention devices must be installed on all potable water services supplying the premises using reclaimed water.
4. Users must comply with all rules, regulations, and conditions set forth in the User Manual as reviewed and accepted by the California Department of Health Services and the Los Angeles County Department of Health Services.

(D)

5. All bills subject to reimbursement fee set forth on Schedule No. UF.

(End of Appendix B)

APPENDIX C

Peerles Water Company, Inc.

COMPARISON OF RATES

A comparison of the present and adopted monthly bills for a 5/8 X 3/4 inch meter service using various quantities of water.

PER METER PER MONTH

<u>Water usage in Ccf per Month</u>	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percent</u>
0	\$ 8.45	\$ 8.75	\$ 0.30	3.6%
10	22.87	24.07	\$ 1.20	5.2%
Avg.15	30.08	31.73	\$ 1.65	5.5%
20	37.29	39.39	\$ 2.10	5.6%
30	51.71	54.71	\$ 3.00	5.8%
40	66.13	70.03	\$ 3.90	5.9%
50	80.55	85.35	\$ 4.80	6.0%

(End of Appendix C)

APPENDIX D
Page 1 of 2

Peerless Water Company, Inc.

ADOPTED QUANTITIES
Test Year 1999

Expenses:

1 Purchased Power

Supplier Schedules Effective Date	Southern California Edison PA-1 January 1, 1999
Energy Charge per Kwh	\$ 0.09172
Energy Tax, per Kwh	\$ 0.0002
Consumption (Kwh)	210,585
Total Power Cost	\$ 33,027

2 Purchased Water (Potable)
City of Bellflower:

130 AF at \$519.00/AF
129 AF at \$493.00/AF
Annual Service Charge \$ 3,888

Park Water Company 129 AF at \$833.00/AF
Annual Service Charge \$ 3,120

3 Purchased Water (Reclaimed)
Central Basin MWD

22 AF at \$266.00/AF

4 Ground Water Assessment

490 AF at \$139.00/AF

5 Insurance Expenses

General Liability Insurance \$ 20,555
Worker's compensation \$ 5,693

6 Water Testing Expense

\$ 7,968

7 Service Connections:

For 5/8x3/4-inch meter 1,955
For 3/4-inch meter 21
For 1-inch meter 8
For 1-1/2-inch meter 4
For 2-inch meter 13
For 3-inch meter 2

8 Reclaimed Water, 2-inch meter

3

APPENDIX D
Page 2 of 2

Peerless Water Company, Inc.

ADOPTED TAX CALCULATIONS
Test Year 1999

<u>Line No.</u>	<u>Item</u>	<u>State Tax</u>	<u>Federal Tax</u>
1	Operating Revenues	858,358	858,358
2	Operating Exp.	743,835	743,835
3	Depreciation	27,321	27,321
4	Taxes Other Than Income	24,994	24,994
5	Interest Expense	12,274	12,274
6	Taxable State for State Tax	49,934	
7	State Tax	4,644	4,644
8	Taxable Income for FIT		45,290
9	Federal Income Tax		6,794
10	Total Income Tax	11,437	
	California Corporate Franchise Rate		9.3%
	Federal Income Tax Rates on first \$50,000 Taxable Income		15%

(End of Appendix D)