

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Water Advisory Branch

RESOLUTION W-4316  
January 9, 2002

**R E S O L U T I O N**

**(RES. W-4316), HAVASU WATER COMPANY (HWC).  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$16,082  
OR 18.93% IN 2001.**

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**SUMMARY**

This resolution grants a general rate increase in gross annual revenues of \$16,082 or 18.93% for Test Year 2001. This increase will provide a 13.25% rate of return on a ratebase of \$86,824 in the test year.

**BACKGROUND**

HWC requests 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 \$18,901 or 22.8% in 2001. HWC's request shows 2001 gross revenue of \$82,937 at present rates increasing to \$101,838 at proposed rates to produce a rate of return on rate base of 13.5%.

HWC currently serves 600 metered-rate customers in the southeast desert basin, located approximately 28 miles South of Needles, San Bernardino County. The present rates were established on June 30, 1998 pursuant to Decision 92-03-093, which authorized all Class C and D water utilities to file once a year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index (CPI-U). The last general rate increase became effective on May 6, 1997, pursuant to Resolution W-4038, which authorized an increase in rates of \$31,677 or 53% and a rate of return of 13.5%.

## **DISCUSSION**

HWC is a corporation owned by W.R. Holcomb and E.L.Hodges. John Blythe is the plant operator, responsible for plant, equipment, pipe maintenance and water quality. Teddye Goodgame is responsible for account receivables, billing and customer relations. Mrs. Hodges is an overall manager of the company, and also takes care of account payables and bookkeeping. Other maintenance employees are hired on a subcontract basis.

Resident income levels are in the low to middle income ranges. HWC currently provides two metered rate schedules, but is proposing to eliminate the rate schedule which includes sprinkler standby service. The number of customers is not expected to change substantially in the upcoming years.

HWC has four pumps (including a diesel operated standby pump at Lake Havasu), a chlorinator, sand filter, a 50,000-gallon storage tank and a 10,000-gallon pneumatic tank. Water is disinfected by chlorine before entering the distribution system. The water transmission system consists of 4000 ft. of 6- and 8- inch diameter cement-asbestos pipes and is under continuous pressure. The system has varying pressures and there are some complaints of low pressures and outages (particularly by customers at higher elevations). Water supply is adequate. HWC meets all other provisions of GO 103.

The Commission Water Branch (Branch) made an independent analysis of HWC's summary of earnings and issued its report on November 26, 2001. Appendix A shows HWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between HWC's and the Branch's estimates in operating revenues and expenses. HWC was informed of the Branch's differing views and it agrees with the Branch's findings.

HWC based its estimated power costs for 2001 on energy usage in 2000 (a 12 month period), with an adjustment for projected customer consumption. HWC applied Southern California Edison's current tariff rates to its estimates. Staff accepts HWC's estimated usage and notes a minor mathematical error in rates that results in differences between Staff and HWC's estimates. HWC estimates \$14,500 for total purchase power for 2001, while staff estimates \$15,600.

HWC requested \$6,700 for materials based on 1998 and 1999 recorded data. After studying actual expenses, which include main replacements and repair

supplies for the years 1998-2000, Branch found an increasing trend. HWC spent \$11,500 in year 2000, which included rectifying some of the deficiencies pointed out by DHS. In light of HWC's commitment and continued effort on improving the system, Branch recommends \$9,000 for material expense.

HWC estimated property taxes to be \$750 based on last adopted amount of property tax. However, Branch studied actual payments to County of San Bernardino for 1998-2000 and determined that a higher amount of \$2,100 was actually paid for property taxes in 2000. The Branch determined that \$2,100 for taxes other than income taxes to be reasonable.

HWC draft advice letter requested rates, which it estimates would produce a rate of return of 13.5%. The summary of earnings shows a rate of return of 13.25% at Branch's recommended rates, which is the midpoint of the range of 12.75% to 13.75% recommended by the Water Division's Audit and Compliance Branch for class D water utilities.

HWC's current rate structure consists of two schedules: Schedule No. 1, General Metered Service, and Schedule No. 1B, General Metered Service, which includes a sprinkler standby service. HWC proposes to eliminate Schedule No. 1B, since the schedule has never been used and HWC has never charged for the standby service. The Branch concurs with HWC on eliminating this rate schedule.

California Department of Health Services (DHS) performed HWC's last annual inspection on January 14, 2000 and found some system deficiencies, which HWC has tried to correct. DHS has recommended the addition of a 100,000-gallon tank to provide acceptable contact time for chlorination and to repair the current 50,000-gallon tank. HWC has obtained estimates and is in the process of contracting out the installation of the 100,000-gallon tank. HWC proposes to install the tank with a bank loan to be repaid over five years (with monthly surcharges to be collected from all the customers). The Branch agrees with the proposal, but recommends the surcharge becomes effective only after the tank is completed, is in full operation and the surcharge is based on actual reasonable costs verified by Commission staff.

Although HWC files its Annual Reports regularly and there are no other outstanding Commission orders, HWC should be ordered to accurately depict in

the annual reports amounts for employee labor, office salaries, management salary, and contract labor.

The rates proposed by the Branch are shown in Appendix B. At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer using 600 ccf of water would increase from \$34.46 to \$40.98 per month. 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 PUBLIC MEETING**

A notice of the proposed general rate increase was mailed to each customer on April 22, 2001. One letter objecting to the increase was received by the Branch. It primarily opposed the surcharge for the proposed tank, which is not included in this rate case. The Consumer Affairs Branch (CAB) reports that HWC has received one complaint in year 2000 for water outage and low pressure.

The public meeting was held on May 17, 2001. Twelve customers attended the meeting. Project Manager, Tatiana Cherkas and staff engineer, Tayeb Mogri, along with HWC owners Mr. and Mrs. Hodges and a HWC consultant Chet Newman were present. Ms. Cherkas explained Commission rate setting procedures and Mrs. Hodges and Mr. Newman explained the reasons for the proposed increase. Customers addressed various issues, including water quality, the necessity of the filtration system, the shortage of water during power outages, the low water pressure at higher elevations and a high level of chlorine. Other issues included the large percentage of the increase and perceived lack of plant maintenance. Customers expressed willingness to pay more for their water bills only if the monies went to proper plant maintenance and improvement in water pressure. Customers suggested that HWC run a loop in the system and continue replacing pipelines and mains, and have an automatic startup of standby diesel pump in case of power outages. Company officials addressed most issues to satisfactory levels and emphasized the need for 100,000-gallon tank to be financed through a future surcharge to be levied on the customers. Company officials addressed the issue of the existing 50,000-gallon tank, which is in urgent need of repairs and needs to be replaced.

## **FINDINGS**

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 in preparation of this resolution are reasonable and should be adopted.
4. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
5. HWC should be authorized to file for an offset rate increase to recover the reasonable costs associated with the construction of the 100,000-gallon tank noted above after such work has been completed and the tank is put into operation.
6. HWC should be authorized to eliminate Schedule No. 1B, General Metered Service, which includes a sprinkler standby service, since the schedule was never used and HWC has never charged for standby service.

## **THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public utilities Code Section 454 to Havasu Water Company 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 cancel its presently effective Schedule No. 1, General Metered Service, and Schedule No. 1B, General Metered Service with Automatic Fire Sprinkler System. The 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. Havasu Water Company is authorized to file an advice letter rate increase request to recover reasonable costs associated with the construction of the 100,000-gallon tank noted above after such work has been completed and the tank is put into operation.
3. Havasu Water Company is authorized to eliminate Schedule No. 1B, General Metered Service, which includes a sprinkler standby service, since the

schedule was never used and Havasu Water Company has never charged for standby service.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 9, 2002; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
RICHARD A. BILAS  
CARL W. WOOD  
GEOFFREY F. BROWN  
Commissioners

**APPENDIX A**

**HAVASU WATER COMPANY**

**SUMMARY OF EARNINGS**

Test Year 2001

| Item                             | Utility Estimated |                  | Branch Estimated |                  | Adopted Rates    |
|----------------------------------|-------------------|------------------|------------------|------------------|------------------|
|                                  | Present Rates     | Requested Rates  | Present Rates    | Requested Rates  |                  |
| <b><u>Operating Revenue</u></b>  |                   |                  |                  |                  |                  |
| Metered Rates                    | \$82,937          | \$101,838        | \$84,958         | \$101,838        | \$101,040        |
| <b>Total</b>                     | <b>\$82,937</b>   | <b>\$101,838</b> | <b>\$84,958</b>  | <b>\$101,838</b> | <b>\$101,040</b> |
| <b><u>Operating Expenses</u></b> |                   |                  |                  |                  |                  |
| Purchased Water                  | 4,600             | 4,600            | 4,600            | 4,600            | 4,600            |
| Purchased Power                  | 14,500            | 14,500           | 15,650           | 15,650           | 15,650           |
| Employee Labor                   | 13,500            | 13,500           | 12,000           | 12,000           | 12,000           |
| Materials                        | 6,700             | 6,700            | 9,000            | 9,000            | 9,000            |
| Contract Work                    | 9,000             | 9,000            | 9,000            | 9,000            | 9,000            |
| Water Testing                    | 7,000             | 7,000            | 3,100            | 3,100            | 3,100            |
| Transportation Exp.              | 1,900             | 1,900            | 1,900            | 1,900            | 1,900            |
| Office Salaries                  | 5,000             | 5,000            | 5,000            | 5,000            | 5,000            |
| Management Salaries              | 8,000             | 8,000            | 8,000            | 8,000            | 8,000            |
| Office Suppl. & Exp.             | 2,800             | 2,800            | 2,800            | 2,800            | 2,800            |
| Professional Services            | 3,800             | 3,800            | 3,800            | 3,800            | 3,800            |
| Insurance                        | 2,600             | 2,600            | 2,600            | 2,600            | 2,600            |
| Regulatory Commission Expense    | 1,750             | 1,750            | 1,750            | 1,750            | 1,750            |
| General Expenses                 | 500               | 500              | 500              | 500              | 500              |
| <b>Subtotal</b>                  | <b>\$81,650</b>   | <b>\$81,650</b>  | <b>\$79,700</b>  | <b>\$79,700</b>  | <b>\$79,700</b>  |
| Depreciation Expense             | \$4,394           | \$4,394          | \$4,394          | \$4,394          | \$4,394          |
| Taxes other than income          | 750               | 750              | 2,100            | 2,100            | 2,100            |
| State Income Tax                 | 800               | 1,264            | 800              | 1,383            | 1,312            |
| Federal Income Tax               | 0                 | 2,067            | 0                | 2,139            | 2,030            |
| <b>Total Deductions</b>          | <b>\$87,594</b>   | <b>\$90,125</b>  | <b>\$86,994</b>  | <b>\$89,716</b>  | <b>\$89,536</b>  |
| <b><u>Net Revenue</u></b>        | <b>(\$4,657)</b>  | <b>\$11,713</b>  | <b>(\$2,036)</b> | <b>\$12,122</b>  | <b>\$11,504</b>  |
| <b><u>Rate Base</u></b>          |                   |                  |                  |                  |                  |
| Average Plant                    | 303,824           | 303,824          | 303,824          | 303,824          | 303,824          |
| Avr. Accum. Deprec.              | 136,000           | 136,000          | 136,000          | 136,000          | 136,000          |
| Net Plant                        | 167,824           | 167,824          | 167,824          | 167,824          | 167,824          |
| Less: Contributions              | 88,000            | 88,000           | 88,000           | 88,000           | 88,000           |
| Plus: Mat'l & Supply             | 1,000             | 1,000            | 1,000            | 1,000            | 1,000            |
| Working Cash                     | 6,000             | 6,000            | 6,000            | 6,000            | 6,000            |
| <b>Rate Base</b>                 | <b>\$86,824</b>   | <b>\$86,824</b>  | <b>\$86,824</b>  | <b>\$86,824</b>  | <b>\$86,824</b>  |
| <b><u>Rate of Return</u></b>     | <b>(LOSS)</b>     | <b>13.49%</b>    | <b>(LOSS)</b>    | <b>13.96%</b>    | <b>13.25%</b>    |

**APPENDIX B  
HAVASU WATER COMPANY**

Schedule No.1

**GENERAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The area known as Tract Nos. 6493, 6494, 6595, 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**

| Quantity Rate:                     | <u>Per Meter</u> |       |
|------------------------------------|------------------|-------|
|                                    | <u>Per Month</u> |       |
| All Water used per 100 cu. ft..... | \$1.760          | ( I ) |

Service Charge:

|     |                      |          |       |
|-----|----------------------|----------|-------|
| For | 5/8 x 3/4-inch meter | \$30.42  | ( I ) |
| For | 3/4-inch meter       | \$45.66  |       |
| For | 1-inch meter         | \$76.11  |       |
| For | 1-1/2 inch meter     | \$152.23 |       |
| For | 2-inch meter         | \$243.53 |       |
| For | 4-inch meter         | \$456.59 | ( 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. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. In the event that customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.

(N)  
|  
(N)  
  
(D)  
(D)  
(D)
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.



**APPENDIX C**

**HAVASU WATER COMPANY**

**COMPARISON OF RATES**

METERED SERVICE

| Meter Size  | <u>Per Meter Per Month</u>     |                                    | <u>Increase</u> |                |
|---|--------------------------------|------------------------------------|-----------------|----------------|
|   | <u>Present</u><br><u>Rates</u> | <u>Recommended</u><br><u>Rates</u> | <u>Amount</u>   | <u>Percent</u> |
| Comparison of average monthly customer bill at present and authorized rates<br>using 600 cubic feet of water:   |                                |                                    |                 |                |
| For 5/8 x 3/4-inch meter  | \$34.46                        | \$40.98                            | \$6.52          | 18.93%         |
| Comparison of average monthly customer bill at present and authorized rates<br>using 1,500 cubic feet of water: |                                |                                    |                 |                |
| 1-inch meter  | \$86.20                        | \$102.52                           | \$16.32         | 18.93%         |
| Comparison of average monthly customer bill at present and authorized rates<br>using 3,000 cubic feet of water: |                                |                                    |                 |                |
| 1 1/2-inch meter  | \$172.40                       | \$205.03                           | \$32.63         | 18.93%         |

**APPENDIX D**

**HAVASU WATER COMPANY**

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**ADOPTED QUANTITIES**

Test Year 2001

Expenses:

1. Purchased power (Electric)

|                |                            |
|----------------|----------------------------|
| Vendor         | Southern California Edison |
| Schedules      | PA-1                       |
| Effective Date | 6/23/2001                  |

a. Treatment Plant

|                        |           |
|------------------------|-----------|
| Customer Charges       | \$17.65   |
| Energy Charge, per Kwh | \$0.12247 |
| Energy Tax, per Kwh    | \$0.00020 |

b. Pumps

|                        |           |
|------------------------|-----------|
| Customer Charges       | \$17.65   |
| Energy Charge, per Kwh | \$0.12247 |
| Energy Tax, per Kwh    | \$0.00020 |

|                 |          |
|-----------------|----------|
| Total Cost (\$) | \$15,650 |
|-----------------|----------|

|                    |         |
|--------------------|---------|
| 2. Purchased water | \$4,600 |
|--------------------|---------|

|                       |         |
|-----------------------|---------|
| 3. Insurance Expenses | \$2,600 |
|-----------------------|---------|

|                     |         |
|---------------------|---------|
| 4. Ad Valorem Taxes | \$2,100 |
|---------------------|---------|

|                  |         |
|------------------|---------|
| 5. Water Testing | \$3,100 |
|------------------|---------|

|                  |      |
|------------------|------|
| 6. Payroll Taxes | None |
|------------------|------|

7. Number of Service Connections:

|                      |     |
|----------------------|-----|
| Metered Rate         |     |
| 5/8 x 3/4-inch meter | 198 |
| 3/4-inch meter       | 0   |
| 1-inch meter         | 0   |
| 1-1/2 inch meter     | 1   |
| 2-inch meter         | 0   |
| 4-inch meter         | 0   |

**APPENDIX D**

**HAVASU WATER COMPANY**

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**ADOPTED QUANTITIES**

Test Year 2001

| Line<br>No.                         | Item                                | State<br>Tax | Federal<br>Tax |
|-------------------------------------|-------------------------------------|--------------|----------------|
| 1.                                  | Operating Revenue                   | \$101,040    | \$101,040      |
| 2.                                  | O & M Expenses                      | \$79,700     | \$79,700       |
| 3.                                  | Taxes Other Than Income             | \$2,100      | \$2,100        |
| 4.                                  | Deprecation                         | \$4,394      | \$4,394        |
| 5.                                  | Taxable Income for State Tax        | \$14,846     |                |
| 6.                                  | State Tax                           | \$1,312      |                |
| 7.                                  | Taxable Income for FIT              |              | \$13,534       |
| 8.                                  | Federal Income Tax                  |              | \$2,030        |
| 9.                                  | Total Income Tax                    |              | \$3,342        |
| California Corporate Franchise Rate |                                     | 8.84%        |                |
| Federal Income Tax Rate             |                                     |              |                |
|                                     | On first \$50,000 of taxable income | 15%          |                |