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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4892
November 10, 2011

R E S O L U T I O N

(RES. W-4892), EAST PASADENA WATER COMPANY (EPWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC),
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$180,994 OR
8.64% FOR TEST YEAR (TY) 2011.

SUMMARY

By Advice Letter (AL) 74, filed on August 4, 2011, EPWC seeks to increase its rates for water service due to a reduction in water consumption from that adopted in the last GRC and earn an adequate return on its plant investment. For TY 2011, this Resolution grants an increase in gross annual revenues of \$180,994 or 8.64% over current rates. The rate schedules to implement the 2011 increase are set forth in Appendix B. This increase is estimated to provide a return of return of 10.80%.

BACKGROUND

EPWC, a Class B water utility, has requested authority under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$180,982 or 8.64%¹ for TY 2011, over the current rates. The purpose of the rate increase is to adjust the adopted quantities for water sold to customers to properly reflect a more accurate quantity and provide an adequate rate of return. EPWC's request was based on a rate of return of 10.80%.

The present rates became effective on June 22, 2011, by approval of AL 73, which authorized a Consumer Price Index (CPI) increase of \$29,836 or 1.5%. The last GRC for EPWC was granted on July 19, 2009, pursuant to Res. W-4764, which granted an increase in revenues of \$398,281 or 22.15%.

¹ \$180,982 is stated as the revenue increase request in AL 74. However, the 8.64% correctly would produce \$180,994 in additional revenue.

East Pasadena provides metered rate service to 2,946 customers within the San Gabriel Valley and provides water distribution to parts of the city of Arcadia, the City of Temple, the City of Pasadena, and unincorporated Los Angeles.

The water system is supplied by three wells currently in active use that draw from the Raymond and San Gabriel Basins. The major well from the San Gabriel Basin produced 1,516.96 acre-feet of water in 2010, while the other wells produced 251.69 acre feet and 70.00 acre feet, respectively, from the Raymond Basin. East Pasadena also maintains emergency interties with the City of Pasadena, the City of Arcadia, and the Sunny Slope Water Company. There are three pressure zones in the system. Pressure Zone 1 is operated at a hydraulic gradient of 810 feet, Pressure Zone 2 at 730 feet, and Pressure Zone 3 at 604 feet. Booster pumps establish the hydraulic gradient line of each pressure zone and reservoirs in the system provide for fire flow, emergency, and operational storage. There are two reservoirs capable of holding 750,000 gallons at the Mountain View and Duarte plant while two other reservoirs capable of holding 360,000 gallons each operate at the Woodward Plant. East Pasadena maintains approximately 39 miles of distribution and transmission pipeline ranging in diameter from 2 to 12 inches.

NOTICE AND PROTEST

On July 12, 2011, a notice of the proposed rate increase was mailed to each customer's permanent address and to the general service list. AL 74 was served on August 2, 2011, in accordance with GO 96-B, including on adjacent utilities and persons on the general service list. No protests were received by the Division of Water and Audits (Division).

An informal public meeting was held on Monday, August 8, 2011, at 6:30 PM at 3725 Mountain View Avenue, Pasadena CA. No customers attended the meeting.

DISCUSSION

The Division made an independent analysis of EPWC's operations. Appendix A shows EPWC's and the Division's estimated summary of earnings at present, proposed and recommended rates for TY 2011. EPWC is in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

The Division's estimate of EPWC's operating expenses, excluding purchased power and other volume related expenses remains the same as the data from the last GRC for EPWC which was granted on July 19, 2009, via Res. W-4764, and escalated² by the CPI

² Escalation was to 2011 dollars.

for 2009 and 2010. For estimating purchased power costs, EPWC used the twelve months of usage ending in December 2010, and applied the average cost per kWh of Southern California Edison rates for 2010, and the Division agrees. Other Volume Related Expenses represent water rights cost paid to the San Gabriel Basin Water Quality Authority from the EPWC. Actual invoices from San Gabriel Basin Water Quality Authority were used to arrive at the estimate and escalated by the CPI for 2009 and 2010. For estimating all other expense categories, Division used the same expenses approved in the last GRC and escalated it by the CPI for 2009 and 2010. The Division's recommendations are shown in Appendix A.

East Pasadena is a Class B water utility (less than 10,000 customers but more than 2,000). The Division's Utility, Audit Finance & Compliance Branch (UAFCB) has conducted an analysis of the financial market changes within the last year and risk faced by Class B utilities, and has determined that the appropriate Return on Rate base (ROR) is 10.80%. For Class B water utilities, the cost of capital is determined on a company specific basis, using company specific debt cost and capital structure. The UAFCB then determines the return on equity by averaging the recently authorized Class A and C returns on equity (ROE). Recently authorized Class B ROR's confirm a 10.80% ROR as reasonable. Del Oro Water Company, another Class B Utility, recently accepted a 10.80% ROR. Using this figure, Division calculates a revenue requirement of \$2,274,827.

EPWC requested a 10.80% rate of return, which was the last approved Rate of Return. Division accepted EPWC'S request and based its analysis on a rate of return of 10.80%. Using this figure, Division calculates a revenue requirement of \$2,274,827.

EPWC's rate structure affects two schedules: 1, General Metered Service, and 4, Private Fire Protection Service. At the Division's recommended rates the increase in revenue will be \$180,994 or 8.64% for TY 2011. At the recommended rates for 2011, shown in Appendix B, monthly rates for an average consumption of 5 Ccf (one Ccf is equal to one hundred cubic feet) will increase from \$20.56 to \$21.69, a difference of \$1.13 or 5.5% in TY 2011. A comparison of customer bills at present and recommended, are shown in Appendix C. The projections, adopted quantities, and tax calculations are shown in Appendix D.

A review of EPWC's 2010 California Department of Public Health's Consumer Confidence Report shows that its water meets the required quality standards set by the CDPH. EPWC provides customers with an annual Consumer Confidence Report, regarding testing and water quality issues and customers have expressed confidence in the water quality. EPWC meets all provisions of Commission's GO 103-A.

COMPLIANCE

The utility has been filing annual reports as required. EPWC needs to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following forms and rules in its tariff book to meet the current Commission standards: Title Page; Schedule LC, Late Payment Charge; Rules: 9, Rendering and Payment of Bills; 10, Disputed Bills; and 11, Discontinuance and Restoration of Service.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. EPWC has requested authority to increase its water rates by \$180,982 or 8.64% for TY 2011.
2. The increase in rates is due to a reduction in water consumption from that adopted in the last General Rate Case.
3. AL 74 was served in accordance with General Order 96-B on August 2, 2011. On July 12, 2011, a notice of the proposed rate increase was mailed to each customer and to the general service list.
4. In reviewing EPWC's request, the Division made an independent analysis of EPWC's operations.
5. The Division used 12 months of actual power usage to estimate purchased power costs.
6. The Division used actual invoices from the San Gabriel Basin Water Quality Authority to estimate other volume related expenses.
7. The Division estimate for all expenses except, purchased power and other volume related expenses are based on the last GRC's data with an addition of the CPI for 2009 and 2010.
8. EPWC meets all the provisions of General Order No. 103-A.
9. EPWC agrees with the Division's recommended revenue requirement.

10. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
11. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
12. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
13. For TY 2011, it is appropriate to grant EPWC an increase in gross annual revenues of \$180,994 or 8.64% over current rates.
14. At the recommended rates for 2011, shown in Appendix B, monthly rates for an average consumption of 5 Ccf will increase from \$20.56 to \$21.69, a difference of \$1.13 or 5.5% in TY 2011.
15. EPWC should be ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules in its tariff book to meet the current Commission standards: Title Page; Schedule LC, Late Payment Charge; 9, Rendering and Payment of Bills; 10, Disputed Bills; and 11, Discontinuance and Restoration of Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to East Pasadena Water Company to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedules Nos. 1, General Metered Service; and 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. East Pasadena Water Company shall file a Tier 1 advice letter within 30 days from the effective date of this resolution revising the following rules in its tariff book to meet the current Commission standards: Title Page; Schedule LC, Late Payment Charge; 9, Rendering and Payment of Bills; 10, Disputed Bills; and 11, Discontinuance and Restoration of Service.

4. 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 November 10, 2011; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

Appendix A					
East Pasadena Water Company					
Summary of Earnings					
Test Year 2011					
Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
Operating Revenue					
General Metered Sales	\$ 2,075,275	\$ 2,256,269	\$ 2,075,275	\$ 2,256,269	\$ 2,256,269
Private Fire	\$ 18,558	\$ 18,558	\$ 18,558	\$ 18,558	\$ 18,558
	\$ 2,093,833	\$ 2,274,827	\$ 2,093,833	\$ 2,274,827	\$ 2,274,827
Operating Expenses					
			180,994		
610 Purchased Water	\$6,834	\$6,834	\$6,834	\$6,834	\$6,834
615 Purchased Power	\$187,834	\$187,834	\$187,834	\$187,834	\$187,834
618 Other Volume Related Expenses	\$209,728	\$209,728	\$209,728	\$209,728	\$209,728
630 Employee Labor	\$270,791	\$270,791	\$270,791	\$270,791	\$270,791
640 Materials	\$43,455	\$43,455	\$43,455	\$43,455	\$43,455
650 Contract Work	\$87,666	\$87,666	\$87,666	\$87,666	\$87,666
660 Transportation Expenses	\$36,539	\$36,539	\$36,539	\$36,539	\$36,539
664 Other Plant Maintenance	\$25,895	\$25,895	\$25,895	\$25,895	\$25,895
670 Office Salaries	\$110,653	\$110,653	\$110,653	\$110,653	\$110,653
671 Management Salaries	\$191,114	\$191,114	\$191,114	\$191,114	\$191,114
674 Employee Benefits	\$106,006	\$106,006	\$106,006	\$106,006	\$106,006
676 Uncollectibles Expense	\$2,976	\$2,976	\$2,976	\$2,976	\$2,976
678 Office Services & Rentals	\$51,049	\$51,049	\$51,049	\$51,049	\$51,049
681 Office Supplies & Expenses	\$17,936	\$17,936	\$17,936	\$17,936	\$17,936
682 Professional Services	\$44,021	\$44,021	\$44,021	\$44,021	\$44,021
684 Insurance	\$93,325	\$93,325	\$93,325	\$93,325	\$93,325
688 Regulatory Commission Expense	\$11,348	\$11,348	\$11,348	\$11,348	\$11,348
689 General Expenses	\$52,256	\$52,256	\$52,256	\$52,256	\$52,256
Subtotal	\$ 1,549,426	\$ 1,549,426	\$ 1,549,426	\$ 1,549,426	\$ 1,549,426
Depreciation	\$ 211,500	\$ 211,500	\$ 211,500	\$ 211,500	\$ 211,500
Taxes other than Income	\$ 78,904	\$ 78,904	\$ 78,904	\$ 78,904	\$ 78,904
Income Taxes	\$ 93,410	\$ 173,279	\$ 93,410	\$ 173,279	\$ 173,279
Interest					
Total Deductions	\$1,933,240	\$2,013,109	\$1,933,240	\$2,013,109	\$2,013,109
Net Revenue	\$160,593	\$261,718	\$160,593	\$261,718	\$261,718
Rate Base					
Average Plant	\$ 7,870,287	\$ 7,870,287	\$ 7,870,287	\$ 7,870,287	\$ 7,870,287
Ave. Accumulated Depreciation	\$ 4,169,873	\$ 4,169,873	\$ 4,169,873	\$ 4,169,873	\$ 4,169,873
Net Plant	\$ 3,700,414	\$ 3,700,414	\$ 3,700,414	\$ 3,700,414	\$ 3,700,414
Less Advances	\$ 5,095	\$ 5,095	\$ 5,095	\$ 5,095	\$ 5,095
Contributions	\$ 585,328	\$ 585,328	\$ 585,328	\$ 585,328	\$ 585,328
Deferred Income Tax	\$ 806,629	\$ 806,629	\$ 806,629	\$ 806,629	\$ 806,629
Unamortized Investment	\$ 6,233	\$ 6,233	\$ 6,233	\$ 6,233	\$ 6,233
Plus Working Cash	\$ 126,193	\$ 126,193	\$ 126,193	\$ 126,193	\$ 126,193
Materials & Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
CWIP	\$ -	\$ -	\$ -	\$ -	\$ -
Rate Base:	\$ 2,423,322	\$ 2,423,322	\$ 2,423,322	\$ 2,423,322	\$ 2,423,322
Rate of Return	6.63%	10.80%	6.63%	10.80%	10.80%

(END OF APPENDIX A)

APPENDIX B
Sheet 1
East Pasadena Water Company
Schedule No. 1
GENERAL METERED SERVICE
Test Year 2011

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Gabriel, Los Angeles County, and as described on the service area map.

RATES

Quantity Rates:

All water, per 100 cu. ft. \$ 1.76 (I)

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 12.89
For 3/4-inch meter	\$ 19.34
For 1-inch meter	\$ 32.22
For 1-1/2-inch meter	\$ 64.45
For 2-inch meter	\$103.11
For 3-inch meter	\$193.35
For 4-inch meter	\$322.24

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

SPECIAL CONDITIONS

- (D)
- (D)
1. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (L)

**APPENDIX B
Sheet 2**

East Pasadena Water Company

Schedule No. 4

**PRIVATE FIRE PROTECTION SERVICE
Test Year 2011**

APPLICABILITY

Applicable to all privately-owned fire protection systems.

TERRITORY

Within the entire service area located within and adjacent to the Cities of Arcadia and Temple City and adjacent to the Cities of Pasadena and San Marino, Los Angeles County, and as described on the service area map.

RATES

Per Service Per Month
Charge

For each inch of diameter of fire sprinkler
service connection

\$ 11.67 (I)

(END OF APPENDIX B)

APPENDIX C
Sheet 1
East Pasadena Water Company
COMPARISON OF RATES

Test Year 2011

		Per Service Connection Per Month		
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:				
	For 5/8 x 3/4-inch meters	\$ 12.89	\$ 12.89	0.0%
	For 3/4-inch meters	\$ 19.34	\$ 19.34	0.0%
	For 1-inch meters	\$ 32.22	\$ 32.22	0.0%
	For 1-1/2-inch meters	\$ 64.45	\$ 64.45	0.0%
	For 2-inch meters	\$ 103.11	\$ 103.11	0.0%
	For 3-inch meters	\$ 193.35	\$ 193.35	0.0%
	For 4-inch meters	\$ 322.24	\$ 322.24	0.0%
Quantity Charge:				
Potable Water	All use, per 100 cu. ft. . . .	\$ 1.533	\$ 1.760	14.8%
Private Fire Protection	Per inch, service connection	\$ 10.74	\$ 11.67	8.6%
A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:				
Usage	Present	Recommended	Amount	Percent
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
0	12.89	12.89	0.00	0.0%
3	17.49	18.17	0.68	3.9%
5 (avg)	20.56	21.69	1.13	5.5%
10	28.22	30.49	2.27	8.0%
15	35.89	39.29	3.41	9.5%
20	48.15	53.37	5.22	10.8%
30	58.88	65.69	6.81	11.6%
40	74.21	83.29	9.08	12.2%

(END OF APPENDIX C)

APPENDIX D
East Pasadena Water Company
ADOPTED QUANTITIES
TEST YEAR 2011

Expenses:		
1. Purchased Power		
	Vendor	Southern California Edison
	Total Cost	\$187,834
2. Other Volume Related Expenses		
	Vendor	San Gabriel River Basin Water Quality Authority
	Total cost	\$209,728
3. Water Sales in Ccf		
	Adopted 2009 GRC	Test Year 2011
		834,374
4. Service Connections		
	Meter Size	
	5/8 x3/4"	1257
	3/4"	811
	1"	686
	1-1/2"	86
	2"	88
	3"	15
	4"	3
	Total Metered	2,946
5. Depreciation Rate		
		2.39%
6. Tax Calculation:		
		Test Year
	Line No.	Item
		2011
	1	Operating Revenue
		\$2,274,827
	2	O & M Expenses
		\$1,549,426
	3	Taxes Other Than Income
		\$78,904
	4	Depreciation
		\$211,500
	5	Interest Expense
		\$0
	6	Taxable Income for State Tax
		\$434,997
	7	State Tax
		\$38,454
	8	Taxable Income for Fed Tax
		\$396,543
	9	Federal Income Tax
		\$134,825
	10	Total Income Tax
		\$173,278

(END OF APPENDIX D)