

hjb

Decision No. 77548

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PPD Corporation dba Northeast Gardens)
Water Company under Section 454 of the)
Public Utilities Code for Authority to)
Increase Rates for Water Service.)

Application No. 51535
(Filed December 8, 1969;
Amended January 29, 1970)

Francis H. Ferraro, for PPD Corporation, applicant.
John D. Reader and I. Nagao, for the Commission staff.

O P I N I O N

PPD Corporation, doing business as Northeast Gardens Water Company (applicant), seeks authority to increase rates for water service to approximately 450 customers in the unincorporated community of Northeast Gardens located one and one-half miles northeast of Fresno, Fresno County.

Public hearing was held before Examiner Coffey in Fresno on April 22, 1970. Copies of the application have been served and notices of hearing have been mailed to customers in accordance with this Commission's Rules of Procedure. The matter was submitted on April 30, 1970, with the receipt of Exhibit No. 12.

A staff financial examiner and an engineer presented the results of their field investigation of applicant's operations. Plant facilities were inspected, pressures checked, and customers interviewed in March, 1970. The staff examined applicant's books and other accounting records.

Applicant generally accepted the staff report, but presented evidence and argued that certain allowances in the results of operation were insufficient. Six customers protested the amount of the proposed increase and complained of sand, low pressure, air in the water, inability to contact the utility in times of trouble, and unannounced service interruptions. Each of the approximately twenty-five customers present at the hearing indicated that they had problems similar to those of the public witnesses.

Rates

Applicant's present rates became effective on June 1, 1952 by Decision No. 47021, dated April 22, 1952, in Application No. 33064. The staff estimated the proposed increase to be, on the average, about 61 percent. Applicant also proposes to change the billing basis from "irrigated area" rates to "lot size" rates. Meter rates are also proposed to be changed and increased. However, there are presently no metered services.

The following tabulation compares applicant's present and proposed rates for flat rate service:

Rate Comparison

<u>Flat Rates</u>	<u>PRESENT</u>	<u>Per Month</u>
For each residence, including 1,500 sq. ft. of irrigated area.....		\$2.75
For all irrigated area in excess of 1,500 sq. ft. per 100 sq. ft.....		.05
For house trailer or tent when used as a dwelling.....		1.00
For places of business, or any commercial or industrial establishment.....		5.00

PROPOSED

Per Service Connection Per Month
3/4-inch 1-inch 1-1/4-inch 2-inch

1. For a single-family residential unit, including premises, having an area of:				
7,799 square feet or less.....	\$ 6.00	\$ 6.00	\$11.00	\$16.00
7,800 to 14,000 square feet...	8.35	8.35	11.00	16.00
14,001 to 25,000 square feet..	10.00	10.00	13.00	16.00
Over 25,000 square feet for each additional 100 square feet or fraction thereof.....	\$ 0.08			
For each additional single-family residential unit on the same premises and served from the same service connection.....	4.65	5.90	6.60	6.60
2. For each automobile service station, medical building, hospital, restaurant, beauty salon.....	12.20	12.20	17.25	27.40
3. For each motel, hotel, apartments, plus \$3.25 per unit....	7.10	7.10	12.20	15.70
4. For each business establishment other than those listed in 2 and 3 above.....	7.10	7.10	12.20	15.70

Results of Operation

To effect improvements in service, the staff recommends the installation of two new wells and three new sand separators. The following tabulation compares the results of applicant's operations, including and excluding staff recommended improvements, under present and proposed rates for the test year 1970 with the adopted results of operation at rates conditionally authorized herein:

Results of Operation

Item	Staff Estimate Year 1970				Adopted Results	
	Incl. Improvements		Excl. Improvements		Including Improvements	Excluding Improvements
	Present	Proposed	Present	Proposed		
	Rates	Rates	Rates	Rates		
Operating Revenues	\$26,400	\$42,500	\$26,400	\$42,500	\$39,050	\$34,480
<u>Deductions</u>						
Source of Supply Exp.	200	200	200	200	200	200
Power	6,400	6,400	6,400	6,400	6,400	6,400
O&M Labor	6,620	6,620	6,620	6,620	6,620	6,620
O&M Materials	1,500	1,500	1,500	1,500	1,500	1,500
O&M Contract Work	500	500	500	500	500	500
Office Salaries	1,580	1,580	1,580	1,580	1,580	1,580
Management Salaries	2,460	2,460	2,460	2,460	2,460	2,460
Off. Supplies & Exp.	1,300	1,300	1,300	1,300	1,300	1,300
Ins. & Empl. Benefits	2,370	2,370	2,370	2,370	2,640	2,640
Acc. & Legal Exp.	200	200	200	200	200	200
General Expense	200	200	200	200	200	200
Vehicle Expense	2,010	2,010	2,010	2,010	2,010	2,010
Off. & Storage Rental	260	260	260	260	260	260
Subtotal	25,600	25,600	25,600	25,600	25,870	25,870
Depreciation Exp.	2,670	2,670	1,870	1,870	2,670	1,870
Property Taxes	2,240	2,240	1,210	1,210	2,240	1,660
Payroll Taxes	890	890	890	890	940	940
Income Taxes	100	2,160	100	3,550	1,120	1,030
Total Deductions	31,500	33,560	29,670	33,120	32,840	31,370
Net Revenues	(5,100)	8,940	(3,270)	9,380	6,210	3,110
Rate Base	76,690	76,690	41,490	41,490	76,690	41,490
Rate of Return	Loss	11.7%	Loss	22.6%	8.1%	7.5%

(Red Figure)

To estimate management's salaries the staff assumed \$24 per customer per year to be reasonable after considering the practice of other water utilities and the large progressive annual increases of management's salary. Applicant argued that this salary should be equal to that of a superintendent of a local pipelaying company. Considering that allowances for accounting, legal and other expenses are included in the adopted results of operation which may be used for management compensation and considering the substantial pension and insurance expenses adopted herein, we find the staff estimate of management's salaries reasonable.

Applicant's owner leases to his operating utilities all small tools, office equipment and vehicles. After comparing these rental charges with costs of ownership by the utility, the staff concluded that the rental charges are excessive and that ownership of equipment by the utility would reduce applicant's operating expenses. We find the staff adjustment of rental charges reasonable.

Applicant argued that the estimate of office supplies and expense should be increased by \$90 annually in anticipation of increased postal rates. This record does not contain sufficient information to support such a speculative request.

Applicant maintained that the staff allowance for insurance and employee benefits should be increased. The staff in Exhibit 12 conceded that the amount of insurance included in this account should be increased by \$270. We find \$2,640 to be a reasonable estimate of insurance and employee benefit expense, which includes amounts committed but not actually contracted for employee benefits and an adjustment for the added billings for insurance demonstrated by Exhibit No. 5.

Applicant argued that the downward adjustment of the staff estimate of property taxes made to reflect expense items erroneously capitalized in 1962, 1963 and 1967 and to eliminate duplicate capital entries made in 1966 was not proper since the property taxes were not increased at the time of the erroneous plant accounting and would not be decreased with the correction of the error. It is noted that the staff allowance of \$1,210 for the test year, excluding improvements, is less than the actual taxes of \$1,658.58 paid in the fiscal year beginning July 1, 1969. We find reasonable property taxes in the amount of \$1,660 for the test year 1970, excluding improvements.

The staff in Exhibit No. 12 conceded that a higher rate for Workmen's Compensation Insurance should apply and increased its estimate by \$50. We find that \$940 is a reasonable estimate for payroll taxes.

Service

The staff report of its field investigation indicates:

- a. Six informal complaints were filed during the last three years. Three complaints pertained to outages and dirty water in 1967 when a main ruptured. The other three questioned the utility's billing practice. All complaints were satisfactorily resolved.
- b. The Department of Public Health reexamined the utility's facilities in February, 1969, and found them to be clean and orderly. Periodic tests of water samples show the quality to be satisfactory.
- c. The present owner reports that the system had been badly neglected prior to the time of acquisition in 1966. Sand separators were not emptied and mains were not flushed. Subsequently a massive flushing program was instituted. At sand separators and at 14 points in the distribution system flushing takes place now once a week in summertime and biweekly in wintertime. However, small amounts of sand still reach some of the customers' services. The staff believes, and the utility agrees, that new and more efficient sand separators should be installed at each well.

- d. The system has for some time been encircled by built-up areas served by other utilities. No growth potential exists. However, the consumption (flat rate) per customer has increased. The 1969 average water use per customer amounted to about 50 Ccf per month. The peak was in July and amounted to 115 Ccf per customer. The staff believes, and the utility agrees, that two new wells should be added, each with a capacity of no less than 150 gallons per minute.
- e. The staff's field investigation in March, 1970, generally determined that the utility was managed and operated in a conscientious and thorough manner. Pressures were maintained between 35 and 65 psi.

Rate of Return

The staff recommends a rate of return of 7.5 percent on the present investment in plant as fair and reasonable, giving consideration to the utility's long term debt balance of \$7,360 on December 31, 1969, at 5 percent interest. This rate of return will produce a return on equity of approximately 8.0 percent.

The staff recommends a rate of return of 8.1 percent upon completion of the recommended improvements amounting to \$36,000. This rate of return takes into consideration the increased costs of debt, estimated to be 8.5 percent.

Applicant requested a rate of return greater than the 7.5 percent after demonstrating that the cash generated from utility operations would not be sufficient to repay existing debt, interest thereon and provide for estimated capital additions. In considering the amount of net revenue increase authorized herein, \$3,110 excluding recommended improvements and \$6,210 including recommended improvements, the impact of increased rates on customers and the economy, and other factors, we find the staff recommended rates of return to be reasonable.

Staff Recommendations

The staff recommends that applicant be directed to:

- a. Place on its books of account the amounts for balance sheet items, utility plant and depreciation reserve shown in the column entitled "Adjusted September 30, 1969" in the "Net Plant Investment" tabulation on page 4 of Exhibit No. 1.
- b. Acquire and place in operation two new wells of a size and capacity comparable to those presently in operation.
- c. Acquire and place in operation a new sand separator at each of the present three wells.
- d. For the year 1970 determine the depreciation accruals by accounts using the rates shown in the depreciation accrual calculation table in Exhibit No. 1. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review these depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1970, reasonably indicate the results of applicant's operations in the near future.
3. A rate of return of 7.5 percent on the adopted present rate base for the year 1970 is reasonable. When applicant improves service by the installation of the new wells and sand separators recommended by the staff a rate of return of 8.1 percent on the adopted rate base including improvements for the year 1970 is reasonable.

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4. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

5. The recommendations of the staff as herein set forth are reasonable. The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, and after applicant has advised the Commission, in writing, that it has contracted for the employee benefits included in the results of operation adopted herein, PPD Corporation, doing business as Northeast Gardens Water Company, is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Upon completion by applicant and verification of said completion by a staff engineer of the plant additions listed below, applicant will be authorized by supplemental order herein to file the revised rate schedules attached to this order as Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing.

- a. Two new wells each with a capacity of no less than 150 gallons per minute.
- b. A new sand separator at each of the present three wells.

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3. Within ninety days after the effective date of this order, applicant shall submit to the staff proposed journal entries which shall record on its books of account the amount for balance sheet items, utility plant and depreciation reserve as shown in the column entitled "Adjusted September 30, 1969" of the "Net Plant Investment" tabulation on page 4 of Exhibit No. 1.

4. For the year 1970, applicant shall determine the depreciation accruals by accounts using the rates shown in the Depreciation Accrual Calculation table of Exhibit No. 1. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review these depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by:

1. Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant;
2. Dividing the result by the estimated remaining life of the plant; and
3. Dividing the quotient by the original cost of plant.

The results of each review shall be submitted promptly to the Commission.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 28th day of JULY, 1970.

[Signature]
Chairman
[Signature]
William J. Lyons
[Signature]
Vernon L. Sturgeon
Commissioners

APPENDIX A
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Schedule No. 1

(T)

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Northeast Gardens, and vicinity, located approximately one mile east of Fresno, Fresno County.

(T)

(T)

RATES

	Per Meter Per Month	
Quantity Rates:		
First 900 cu.ft. or less	\$ 3.50	(I)
Next 1,100 cu.ft., per 100 cu.ft. ....	.25	(I)
Next 3,000 cu.ft., per 100 cu.ft. ....	.17	(R)
Over 5,000 cu.ft., per 100 cu.ft. ....	.09	(R)
Minimum Charge:		
For 5/8 x 3/4-inch meter	3.50	(I)
For 3/4-inch meter	5.25	|
For 1-inch meter	8.00	(I)
For 1 1/2-inch meter	14.00	(N)
For 2-inch meter	20.00	|
For 3-inch meter	40.00	|
For 4-inch meter	60.00	|
For 6-inch meter	120.00	(N)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

(T)

(T)

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Schedule No. 2

(T)

FLAT RATE SERVICE

(T)

APPLICABILITY

Applicable to all flat rate water service.

TERRITORYNortheast Gardens, and vicinity, located approximately one
mile east of Fresno, Fresno County.

(T)

(T)

RATES

	<u>Per Service Connection Per Month</u>			(C)
	<u>1-inch or Smaller</u>	<u>1½-inch</u>	<u>2-inch</u>	
1. For a single-family residential unit, including premises having an area of:				
7,800 sq.ft. or less	\$ 4.80	\$ -	\$ -	
7,801 to 14,000 sq.ft.	6.75	9.00	-	
14,001 to 25,000 sq.ft.	8.40	10.50	13.00	
Over 25,000 sq.ft. per 100 sq.ft.	0.02	0.02	0.02	(C)
For each additional single-family residential unit on the same premises and served from the same service connection	4.00	5.00	5.00	(T) (T) (I)
2. For each automobile service station, restaurant or beauty salon	10.00	14.00	22.00	(I)
3. For motels, hotels, offices or apartments:				(T) (T)
(a) For the initial unit or manager's apartment	6.00	8.00	8.00	(I)
(b) For each additional unit	3.00	3.00	3.00	(C)

(Continued)

(D)

Schedule No. 2

(T)

FLAT RATE SERVICE
(Continued)

(T)

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis.

(N)

(N)

2. For service covered by the above classifications, if the utility so elects, a meter may be installed and service provided under Schedule No. 1, Metered Service.

(C)

(C)

APPENDIX B
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Northeast Gardens, and vicinity, located approximately one mile east of Fresno, Fresno County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 900 cu.ft. or less	\$ 4.00	(I)
Next 1,100 cu.ft., per 100 cu.ft. ....	.27	|
Next 3,000 cu.ft., per 100 cu.ft. ....	.18	(I)
Over 5,000 cu.ft., per 100 cu.ft. ....	.09	

Minimum Charge:

For 5/8 x 3/4-inch meter	4.00	(I)
For 3/4-inch meter	6.00	|
For 1-inch meter	9.00	(I)
For 1 1/2-inch meter	14.00	
For 2-inch meter	20.00	
For 3-inch meter	40.00	
For 4-inch meter	60.00	
For 6-inch meter	120.00	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

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Schedule No. 2

FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Northeast Gardens, and vicinity, located approximately one mile east of Fresno, Fresno County.

RATES

		<u>Per Service Connection Per Month</u>			
		<u>1-inch or Smaller</u>	<u>1½-inch</u>	<u>2-inch</u>	
1.	For a single-family residential unit, including premises having an area of:				
	7,800 sq.ft. or less	\$ 5.50	\$ -	\$ -	(I)
	7,801 to 14,000 sq.ft.	7.65	10.00	-	
	14,001 to 25,000 sq.ft.	9.20	11.50	15.00	(I)
	Over 25,000 sq.ft. per 100 sq.ft.	0.02	0.02	0.02	
	For each additional single-family residential unit on the same premises and served from the same service connection	4.25	5.50	5.50	(I)
2.	For each automobile service station, restaurant or beauty salon	11.00	15.00	25.00	
3.	For motels, hotels, offices or apartments:				
	(a) For the initial unit or manager's apartment	6.50	8.75	8.75	
	(b) For each additional unit	3.20	3.20	3.20	(I)

(Continued)

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APPENDIX B
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Schedule No. 2

FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS

1. All service not covered by the above classification shall be furnished only on a metered basis.
2. For service covered by the above classifications, if the utility so elects, a meter may be installed and service provided under Schedule No. 1, Metered Service.