

ORIGINAL

Decision No. 77569

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of FRANCIS H. FERRARO, doing bus-
iness as KAVANAGH VISTA WATER
COMPANY, under Section 454 of the
Public Utilities Code, for author-
ity to increase rates for water
service.

Application No. 51534
(Filed December 8, 1969;
Amended January 29, 1970)

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

O P I N I O N

Francis H. Ferraro, doing business as Kavanagh Vista Water Company (applicant), seeks authority to increase rates for water service to approximately 605 customers in an unincorporated area six miles north of Fresno, Fresno County.

Public hearing was held before Examiner Coffey in Fresno on April 21, 1970. Copies of the application have been served and notice of hearing has been mailed to customers in accordance with this Commission's rules of procedure. The matter was submitted on May 5, 1970, with the receipt of Exhibit No. 6, a report on the status of assessment bond financed plant in Thunderbird Estates, Tracts Nos. 1614 and 1639.

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 items in the estimate of results of operation were underestimated.

Five customers protested the amount of the proposed rate increase. Several witnesses complained of sand, low pressure and unannounced interruptions of service but stated that service had improved since the system was acquired by the present owner in 1967.

Rates

Applicant's present flat rates became effective on January 18, 1964, by Decision No. 66291, dated November 5, 1963. Applicant's present meter rates became effective on August 10, 1963 by Decision No. 65664, dated July 9, 1963. The proposed increase amounts to about 50 percent for meter rates and an average of about 105 percent for flat rates. Only four customers receive service through meters. Applicant also proposes to add minimum charges for larger size meters and to change and enlarge the classifications for flat rate service to business establishments.

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

SCHEDULE OF RATES
RATE COMPARISON

Meter Rates

Quantity Rates:

	Per Meter Present Rates	per Month Proposed Rates
First 900 cu.ft. or less	\$ 2.65	\$4.00
Next 1,100 cu.ft. per 100 cu.ft.18	.27
Next 3,000 cu.ft. per 100 cu.ft.12	.18
Over 5,000 cu.ft. per 100 cu. ft.06	.09

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.65	\$ 4.00
For 3/4-inch meter	3.60	6.00
For 1-inch meter	5.25	9.00
For 1 1/2-inch meter	8.50	14.00
For 2-inch meter	11.00	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.

Flat Rates

Per Service Connection Per Month							
3/4-inch		1-inch		1 1/2-inch		2-inch	
Pres.	Prop.	Pres.	Prop.	Pres.	Prop.	Pres.	Prop.
Rates	Rates	Rates	Rates	Rates	Rates	Rates	Rates

1. For single-family residential unit, including premises having an area of:

8,100 square feet or less	2.90	6.00	2.90	6.00	-	11.00	-	16.00
8,101 to 14,000 square feet	4.10	8.35	4.10	8.35	5.50	11.00	-	16.00
14,001 to 25,000 square feet			5.00	10.00	6.50	13.00	8.00	16.00
Over 25,000 square feet or each additional 100 square feet or fraction thereof:								
<u>Present</u>								
<u>Proposed</u>								
\$ 0.08								

For each additional single family residential unit on the same premises and served from the same service connection.....

	2.30	4.65	2.90	5.90	3.25	6.60	3.25	6.60
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 2. For each automobile service station, restaurant, hospital, beauty salon
 3. For each motel, hotel, apartments, plus \$3.25 per unit
 4. For each business establishment other than those listed in 2 and 3 above
- | | | | | | | | | |
|--|------|-------|------|-------|------|-------|-------|-------|
| | 6.00 | 12.20 | 6.00 | 12.20 | 8.50 | 17.25 | 13.50 | 27.40 |
| | 3.50 | 7.10 | 3.50 | 7.10 | 6.00 | 12.20 | 7.75 | 15.70 |
| | 3.50 | 7.10 | 3.50 | 7.10 | 6.00 | 12.20 | 7.75 | 15.70 |

Results of Operation

The following tabulation compares the results of applicant's operations under present and proposed rates for the test year 1970 as estimated by the staff and the adopted results of operation at rates authorized herein:

Results of Operation

<u>Item</u>	<u>Staff Estimate</u>		<u>Adopted Results</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
Operating Revenues	\$27,200	\$54,920	\$45,400
<u>Deductions</u>			
Source of Supply Exp.	200	200	200
Purchased Power	5,300	5,300	5,300
O&M Labor	8,200	8,200	8,200
O&M Materials	1,850	1,850	1,850
O&M Contract Work	700	700	700
Office Salaries	1,970	1,970	1,970
Management Salaries	3,120	3,120	3,120
Office Suppl. & Exp.	1,700	1,700	1,700
Ins. & Empl. Benefits	2,910	2,910	2,950
Accounting & Legal Exp.	300	300	300
General Expense	220	220	220
Vehicle Expense	2,690	2,690	2,690
Office & Storage Rental	410	410	410
Subtotal	29,570	29,570	29,610
Depreciation Exp.	4,600	4,600	4,600
Property Taxes	2,250	2,250	2,250
Payroll Taxes	1,280	1,280	1,340
Income Taxes	-	3,320	460
Total Deductions	37,700	41,020	38,260
Net Revenues	(10,500)	13,900	7,140
Rate Base	95,220	95,220	95,220
Rate of Return	Loss	14.6%	7.5%

(Red Figure)

The staff eliminated from plant the acquisition costs incurred by applicant amounting to \$2,200. Applicant argued that the expenses were incurred because of a trustee sale and the requirement to obtain a certificate of public convenience and necessity to operate the utility and that the accounting was acceptable for income tax purposes. We find the staff adjustment reasonable. Expenditures may be treated differently for tax and regulatory purposes, different methods of accounting being entirely proper and correct for the respective different purposes.

Since most of the billing is bimonthly in advance of service, the staff did not include a working cash allowance in the rate base. Applicant requested that \$160 be allowed for working cash since approximately \$1,000 of revenue is obtained from meter rates. The staff allowance is conservative and favors applicant since it would be appropriate to reduce the applicant's rate base to reflect the general collection of revenues in advance of the payment of most expenses. The staff estimate will be adopted only for the purpose of this proceeding. The staff should review its methods of estimating the working cash allowance when revenues of small utilities or districts of utilities are collected on the average substantially in advance of the expense payments.

To estimate management 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 salary by applicant. Applicant argued that this salary should be equal to that of a superintendent of a pipe-laying company. Considering that amounts for accounting, legal and other expenses are included in the staff estimates which may be used for management compensation and considering the substantial pension and insurance

expenses adopted herein, we find the staff estimate of management salaries reasonable.

Applicant 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 the 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 \$130 annually in anticipation of increased postal rates. This record does not contain sufficient information to support this speculative request.

Applicant maintained that the staff allowance for insurance and employee benefits should be increased \$877.23. It appears that if \$40 is added to the staff estimate sufficient funds will be available for the portion of such expenditures allocated to applicant. We find \$2,950 to be a reasonable estimate of insurance and employee benefit expense. This adopted allowance includes amounts committed, but not actually contracted, for employee benefits and an adjustment for the added insurance billings demonstrated by Exhibit No. 3.

Applicant requested \$249.37 be added to the staff allowance for payroll taxes. Since there are limitations in the amounts of such taxes per employee and since some employees do not cause a tax levy, we find it reasonable to increase the staff estimate by \$60 to reflect the workman's compensation insurance rate currently being paid by applicant.

A public witness questioned if certain plant used by applicant for utility service was owned by the utility.

Late-filed Exhibit No. 6 establishes that the subdivisions identified as Tract No. 1614, Thunderbird Estates; and Tract No. 1639, Thunderbird Estates No. 2, were financed by assessment bonds under the Improvement Act of 1913. The staff determined the actual costs of intract facilities for both tracts from a review of the records on file in the City Hall of Fresno, California. The costs of these facilities were excluded from applicant's plant accounts in connection with the previous rate application, No. 45002, because of the absence of a resolution of the Board of Supervisors transferring these utility facilities to Kavanagh Vista Company. Since these facilities are not recorded on applicant's books of account, no adjustments are necessary herein. However, since applicant provides water service to these two tracts, it should obtain title to the facilities. If the water system serving the Thunderbird tracts is transferred to the utility, the staff recommends that these facilities be recorded in applicant's plant accounts, with a contra entry to Account 265, Contributions in Aid of Construction.

The staff recommends that applicant contact the County Board of Supervisors and arrange for the transfer of title to the said utility plant facilities in Thunderbird Estates, Tracts Nos. 1614 and 1639, which were financed by assessment bonds.

Service

The staff report of its field investigation indicates:

- a. Two informal complaints have been filed during the last three years, both of which were satisfactorily resolved.
- b. The utility was reissued a permit by the Department of Public Health in 1969. Periodic tests show water quality to be satisfactory.
- c. Pressures were maintained between 35 and 65 psi.

- d. The 6-inch main between Blackstone and Calaveras Avenues may not have sufficient capacity in summertime due to about 200 feet of 4-inch feeder line along Escalon Avenue. The utility should investigate this matter when peak consumption occurs and, if necessary, install a larger feeder line.
- e. Occasional leaks occur in the system. Some street grading subsequent to system installation has left some mains without sufficient cover.
- f. The utility is managed and operated in a conscientious and thorough manner.

Rate of Return

The staff recommends a rate of return of 7.5 percent as fair and reasonable, giving consideration to the utility's long-term debt balance of \$77,464 on December 31, 1969, at 6.25 percent interest to Bank of America. This rate of return will produce a return on equity of approximately 12 percent.

Applicant requested a rate of return greater than 7.5 percent after demonstrating that the cash generated from utility operations would not be sufficient to repay existing debt, interest thereon and to provide for estimated annual capital additions. Considering the amount of net revenue increase authorized herein, \$17,640, the impact of increased rates on customers and the economy, and other factors, we find the staff recommended rate of return to be reasonable.

Staff Recommendations

The staff recommends that applicant be directed to:

1. Place on its books of accounts the amounts for balance sheet items, utility plant and depreciation reserve as shown in the column entitled "Adjusted September 30, 1969" in the "Net Plant Investment" tabulation on page 4 of Exhibit No. 1.
2. Determine depreciation accruals by accounts using the rates shown in the depreciation accrual calculation table in Exhibit No. 1.

until reviews in accordance with ordering paragraph 4 of Decision No. 65664, dated July 9, 1963, in Application No. 45002 determine otherwise.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues but proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expense 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 rate base for the year 1970 is reasonable.
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 he has contracted for the employee benefits included in the results of operation adopted herein, Francis H. Ferraro, doing business as Kavanagh Vista Water Company, is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General

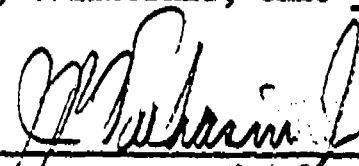
Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.


2. Within ninety days after the effective date of this order, applicant shall submit to the staff proposed journal entries which will record on its books of accounts the amounts for the 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 in this proceeding.

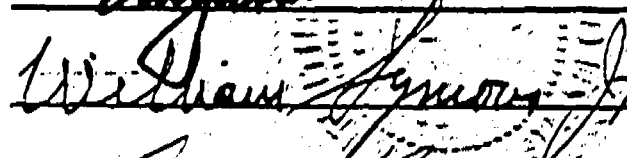
3. Applicant shall determine depreciation accruals using the rates shown in the depreciation accrual calculation table of Exhibit No. 1 for the year 1970 and thereafter until reviews in accordance with ordering paragraph 4 of Decision No. 65664, dated July 9, 1963, in Application No. 45002 determine otherwise.

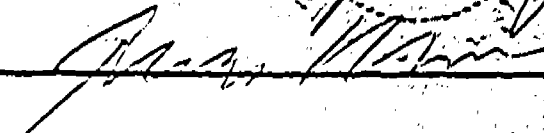
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 4th day
of AUGUST, 1970.



Chairman






Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 3

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area adjacent to Ballard Avenue, and vicinity, located approximately 6 miles north of Fresno, Fresno County.

RATESPer Meter
Per Month

Quantity Rates:

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	
Over 5,000 cu.ft., per 100 cu.ft.09	

Minimum Charge:

For 5/8 x 3/4-inch meter	4.00	
For 3/4-inch meter	6.00	
For 1-inch meter	9.00	
For 1 1/2-inch meter	14.00	
For 2-inch meter	20.00	(I)
For 3-inch meter	40.00	(N)
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.

APPENDIX A
Page 2 of 3

Schedule No. 2

FLAT RATE SERVICE

(T)

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area adjacent to Ballard Avenue, and vicinity, located approximately 6 miles north of Fresno, Fresno County.

RATES

Per Service Connection Per Month

	1" or Smaller	1½-inch	2-inch
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1. For a single-family residential unit,
including promises having an area of:

8,100 Square feet or less	\$ 4.90	\$ -	\$ -	(I)
8,101 to 14,000 square feet ..	6.90	9.30	-	(I)
14,001 to 25,000 square feet ..	8.40	10.50	13.00	(I)
Over 25,000 sq.ft. per 100 sq.ft.	0.02	0.02	0.02	(N)

For each additional single-family
residential unit on the same premises
and served from the same service
connection

4.00	5.00	5.00	(I)
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2. For each automobile service station,
restaurant or beauty salon

10.00	14.00	22.00	(I)
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3. For motels, hotels or apartments

- (a) For the initial unit or manager's
apartment

6.00	8.00	8.00	(N)
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- (b) For each additional unit

3.00	3.00	3.00	(N)
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(D)

(Continued)

Schedule No. 2

FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS

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

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