

Decision No. 82367

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }
FRUITRIDGE VISTA WATER COMPANY, }
a California corporation, under }
Section 454 of the Public Utilities }
Code for Authority to Increase Rates }
for Water Service. }

Application No. 53829
(Filed February 7, 1973)

Verner R. Muth, for Fruitridge Vista Water
Company, applicant.
Don Riggins, Fire Chief, for Fruitridge Fire
Protection District and Pacific Fire
Protection District, interested party.
J. D. Reader and K. K. Chew, for the
Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey at Sacramento on July 9, 1973. The matter was submitted on the receipt of the transcript on July 16, 1973.

Applicant provides public utility water service to about 4,000 consumers in an unincorporated area of approximately 2.5 square miles adjacent to the southerly limits of the city of Sacramento and under a special resale service rate to a political subdivision located adjacent to applicant's service area. The stability of applicant's operation is demonstrated by the small increase of only 25 average active service connections^{1/} from 1969 to 1972.

1/ Excluding fire protection.

Rates

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

	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Meter Rates</u>		
Quantity Rates:		
First 600 cu.ft. or less	\$ 1.50	\$ 2.00
Next 4,400 cu.ft., per 100 cu.ft.	0.15	0.20
Over 5,000 cu.ft., per 100 cu.ft.	0.10	0.13
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 1.50	\$ 2.00
For 3/4-inch meter	2.50	3.30
For 1-inch meter	4.00	5.30
For 1-1/2-inch meter	8.50	11.50
For 2-inch meter	12.00	16.00
For 3-inch meter	21.00	28.00
For 4-inch meter	34.00	45.00
For 6-inch meter	68.00	90.00

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

	<u>Per Service Connection Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Flat Rates</u>		
1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area:	\$ 2.90	\$ 3.70
a. For each additional single-family residential unit on the same premises and served from the same service connection	1.80	2.30
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft.	0.03	0.04
2. For each automobile service station, including a car wash rack, where service connection is not larger than 1-inch in diameter	6.00	7.00

No change is proposed in the schedules for private fire protection, public fire protection, or resale services.

Results of Operation

The following tabulation compares the estimated summaries of earnings for the test year 1973, under present and proposed rates, prepared by applicant and by the staff, with the 1972 recorded results of operation and the results of operation adopted for the purposes of this proceeding:

Item	1973 Estimated					
	1972* Present Rates		Proposed Rates			
	Recorded	Applicant	Staff	Applicant	Staff	Adopted
<u>Operating Revenue</u>						
Metered Sales	\$ 29,829	\$ 30,400	\$ 31,900	\$ 40,500	\$ 42,400	\$
Unmetered Sales	143,904	145,300	142,400	187,800	181,900	
Fire Protection	5,409	5,600	5,700	5,600	5,700	
Sales to Other Utilities	1,358	1,450	1,400	1,900	1,900	
Total Operating Revenue	180,500	182,750	181,400	235,800	231,900	204,400
<u>Operating Revenue Deductions</u>						
Operating Expenses	98,922	124,000	112,200	124,000	112,200	105,300
Depreciation Expense	26,264	29,600	28,300	29,600	28,300	28,300
Taxes Other Than Income	17,545	21,900	18,400	21,900	18,400	18,400
Income Taxes	10,003	2,000	5,000	24,000	30,300	19,400
Total Deductions	152,734	177,500	163,900	199,500	189,200	171,500
Net Revenue	27,766	5,250	17,500	36,300	42,700	32,900
Average Depreciated Rate Base	-	458,000	422,000	458,000	422,000	422,000
Rate of Return	-	1.1%	4.1%	7.9%	10.1%	7.8%

* After staff accounting adjustments.

Revenue

The staff estimate for total operating revenue in the test year at present rates is \$1,350 less than that estimated by applicant. The staff estimate of operating revenues appears reasonable when past recorded revenues are considered.

Operating and Maintenance Expenses

The following tabulation compares recent recorded operating and maintenance expenses, the estimated expenses of applicant and of the staff, and expenses adopted for the purposes of this proceeding:

Operating and Maintenance Expenses

Item	1971*	1972*	1973 Estimated		
	Recorded	Recorded	Applicant	Staff	Adopted
Purchased Water	\$ -	\$ -	\$ 500	\$ -	\$ 800
Pump Expense	-	-	800	800	3,200
Power for Pumping	18,261	19,615	23,500	20,700	20,700
Maint. of Structures	53	10	-	-	-
Maint. Pumping Equip.	5,945	2,902	4,500	4,500	3,800
Water Treatment Exp.	3,377	2,760	3,300	3,300	3,300
Maint. Water Treatment	-	103	900	200	100
Distrib. Line Expense	25,931	22,618	29,000	25,100	25,100
Trans. & Distrib. Exp.	1,988	2,640	5,700	2,900	2,600
Maint. of Services	131	1,090	1,200	1,200	700
Maint. of Meters	74	32	300	300	50
Maint. of Hydrants	-	91	400	400	150
Customer Accounts Exp.	4,756	4,851	5,200	5,200	5,200
Uncollectible Accounts	876	553	1,000	1,000	1,000
Advertising	249	247	300	300	300
Administrative Salaries	3,000	3,000	3,000	3,000	-
Office Supp. & Other Exp.	919	219	800	800	500
Insurance	3,423	3,040	3,300	3,300	3,300
Franchise Requirements	-	-	600	-	-
Outside Services	35,950	31,363	34,500	34,500	32,000
Regulatory Expenses	-	-	800	800	600
Misc. General Expense	2,574	2,408	2,900	2,400	600
Rent	1,380	1,380	1,500	1,500	1,400
Total Oper. Exp.	\$108,877	\$98,922	\$124,000	\$112,200	\$105,400

* After staff accounting adjustments.

The accounting adjustments made by the staff amounted to total net deductions of \$4,799 and \$5,923 in 1971 and 1972, respectively. The adjustments in the main resulted from the regulatory reduction of \$4,800 for director fees proposed by the staff and from reflecting the accrual of purchased power in the reporting year which amounted to an addition of \$636 in 1971 and a corresponding reduction in 1972. The only accounting errors reported by the staff in the two years were \$104 for small tools erroneously capitalized, \$634 for labor erroneously expensed, and \$588 for the erroneous expensing of the loss on the sale of transportation equipment. A comparison of the reported results of the staff audit of the recorded years 1971 and 1972 and the reports made annually by applicant to this Commission demonstrates that applicant's annual reports are reasonably accurate in reflecting the actual operations and the expenses incurred for the operation and maintenance of applicant's water system. Applicant's annual reports show the total amounts of operating and maintenance expended annually as follows:

<u>Year</u>	<u>Total Recorded Unadjusted Operating and Maintenance Expenses</u>
1968	\$ 86,468
1969	92,543
1970	104,245
1971	113,676
1972	104,845

At the hearing applicant offered no substantial explanation of why its operating and maintenance expense estimate of \$124,000 for 1973 was reasonable when it exceeded the greatest annual expenditure, \$113,676 in 1971 by 9 percent, and exceeded the actual expenditures in 1972 by 18 percent. It is obvious that applicant's estimated operating and maintenance expenses in the test year are grossly inflated and unrealistic.

The staff report explains the differences between its estimate and applicant's as follows:

- "a. The staff believes that in view of recent pump overhauls, purchases of water to the extent of \$500 will not occur.
- "b. Although in previous years the power rates were increased 10% each year, there is no increase expected in 1973. The staff estimate is based on present power rates, and applicant's on increased power rates. The difference amounts to \$2,800.
- "c. The staff examined past plant operation and maintenance expenses as a group. It added amounts for normal growth and for new costs of well production and operation monitoring. Applicant has made estimates by accounts and included amounts for a cement lining program not presently being undertaken. The resulting difference amounts to \$7,400.
- "d. The balance of the difference between staff and applicant's estimates are essentially due to accounting adjustments explained in Table II-C and amounts to \$1,100."

In contrast to applicant's making its estimates by accounts, the staff first made estimates of total operation and maintenance expenses and then spread the total amounts to accounts.

A comparison of accounts discloses that both applicant and the staff in almost every instance estimated expenses substantially in excess of those recorded in the past two years. In some instances substantial amounts are estimated for accounts in which only a small amount, or none, has been recorded in the past two years. The testimony and exhibits in this proceeding do not explain the need or change in operations which would justify such inflated estimates. The following discussion of director fees illustrates this point.

In its 1969 rate proceeding applicant included \$7,200 for the total annual fees of six directors for four meetings per year having an average length of thirty minutes. In that proceeding, Application No. 51009, the staff included \$300 for director fees, or \$12.50 per director per quarterly meeting. After considering this issue, in Decision No. 76500 the Commission doubled the staff allowance for director fees so that each director was allowed \$100 per year. The staff in its report in the current proceeding recommended that \$100 per meeting be allowed for director fees, or four times that previously adopted by the Commission, without any support for its inflated allowance other than the statement: "It is the staff's opinion that for rate-making purposes these directors' fees are excessive for the services they perform for the utility and that \$100 per director per meeting is reasonable."

If the staff regulatory adjustment of \$4,800 for director fees is added to the \$112,200, the staff estimate for 1973 operating and maintenance expenses, the resulting \$117,000 compares unfavorably to the 1970, 1971, and 1972 recorded unadjusted operating and maintenance expenses. Considering the trend of recorded expenses since 1968 and the expenditures of approximately \$104,000 in 1970, of \$114,000 in 1971, and the expense decrease to \$105,000 in 1972, the staff total allowance appears excessive. The staff method of first estimating total operating expenses and then allocating that total to accounts, loses the inherent accuracy of estimating by accounts. This inherent accuracy results from the cancellation of small plus and minus errors in the estimates of the individual accounts.

In order to determine the extent to which the estimates of applicant and the staff are excessive we shall consider in the following discussion applicant's reported operations by accounts for the most recent five years.

Purchased Water

In support of its estimate of \$500 for purchased water, applicant's witness stated that \$7,200 would be expended in 1973 for purchased water. Purchased water is needed because a pump was taken out of operation during the installation of a sand separator, and because of anticipated purchases at the rate of \$500 per month for three months to maintain evening water pressures on hot evenings. Of the \$7,200 total estimate, \$5,700 resulted from the unexpected hot weather in May when the sand separator was installed and from a delay in the receipt of pump parts. During the past five years, the only other expenditure for purchased water was \$1,270 in 1970. Despite recent pump overhauls, it is reasonable to allow \$800 per year as an estimate of average emergency requirement for purchased water.

Pump Expense

Applicant has not charged any pump expense during the past five years. Both the applicant and the staff estimate \$800 for this account. New pump expenses result from the Water Production Control Board's requirement that well production be read daily and because an operation monitoring system will be installed this year. The staff estimated these expenses to total \$3,200 per year, which we will adopt.

Power for Pumping

In view of the above staff explanation of difference in power cost estimates and after review of the recorded power cost during the past five years, we find the staff estimate reasonable.

Maintenance of Pumping Equipment

Both applicant and the staff estimate \$4,500 for this expense. During the past four years the amounts expended annually ranged from \$2,549 to \$5,945 and averaged \$3,589. We will adopt \$3,800 for this expense.

Maintenance of Water Treatment Expense

Applicant estimates \$900 and the staff \$200 for this operation. During the past five years applicant has recorded only \$308. We will adopt \$100.

Distribution Line Expense

Applicant estimates \$29,000 and the staff \$25,100 for this operation. The average expense during the past three years was \$24,506. We will adopt the staff estimate.

Transmission and Distribution Expense

Applicant estimates \$5,700 and the staff \$2,900 for this operation. The average expense during the past three years was \$2,460. We will adopt \$2,600 for this operation.

Maintenance of Services

Applicant and staff both estimate \$1,200 for this operation. During the past four years applicant expended annual amounts ranging from \$131 to \$1,090 which results in an annual average of \$592. We will adopt \$700 for this operation.

Maintenance of Meters

Applicant and staff both estimate \$300 for this operation. During the past five years applicant has expended a total of \$144, or an average of \$29. Lacking a showing that applicant plans to change its level of meter maintenance, we will adopt \$50 for this operation.

Maintenance of Hydrants

Applicant and staff both estimate \$400 for this operation. During the past five years applicant has expended a total of \$609, or an average of \$122. Lacking a showing that applicant plans to change its level of hydrant maintenance, we will adopt \$150 for this operation.

Administrative Salaries

Administrative salaries consist of a \$250 per month salary to Mrs. Margaret Cook, the president of the corporation, who is also a member of the board of directors. Mrs. Cook does not participate in the daily operations of the utility and her services are limited to deciding matters of policy, coordinating family opinion and approaches, and maintaining family peace. She does not spend time in the office.

Artz and Cook, an affiliated corporation, has provided management and clerical services for a monthly fee of \$2,500. This service (also discussed under Outside Services) includes a full-time manager for the utility who receives \$1,000 per month for service to the utility, maintenance of customers' accounts, maintaining the utility's records, an answering service, office supplies, and

office space in the Artz and Cook real estate office used for providing these services. All of the officers of the utility are affiliated with Artz and Cook, the real estate firm that constructed the system and which owns 89 percent of the utility common stock.

We shall hereinafter accept for the purposes of this proceeding the \$32,000 management fee proposed for 1973, but shall not adopt an allowance for administrative salaries. This management fee shall be fully justified at the next rate proceeding.

Office Supplies and Other Expenses

Both applicant and staff estimated \$800 for this account. An average of \$500 has been expended during the past five years which we will adopt herein.

Franchise Requirements

Applicant estimated \$600 for franchise requirement which the staff included in "other taxes". We will include \$600 for this tax in "other taxes".

Outside Services

Both applicant and staff estimated \$34,500 for these services. Analysis of 1971 expenses disclosed that legal fees of \$5,000 were incurred in 1971 to defend the depreciation taken for tax purposes and the accumulation of excessive earnings. A witness for applicant stated that presently legal and auditing fees are not anticipated unless the Internal Revenue Service again challenges a tax return. Such expenditures, made in the interest of the investors, to defend the tax returns of prior years, are not appropriate for inclusion in the basis of determining rates to be paid by customers. We shall adopt \$32,000 for outside services based on the projected increase in management fees.

Regulatory Expense

Both applicant and staff allocated \$800 for regulatory expense in the test year. During the past five years applicant has recorded in 1969 and 1970 a total of \$1,724 for the 1969 rate application. Prior to 1969, the rates were established in 1953. Applicant's witness estimated that this application will result in \$1,835 of regulatory expense. We will assume that applicant will not have a rate proceeding more often than once in three years and will adopt \$600 as a reasonable allowance for regulatory expense in the test year.

Miscellaneous General Expense

Applicant estimated \$2,900 and the staff \$2,400 for this account in which the main entry is directors' fees. The family-owned utility has six directors, who meet four times a year. All of the directors are either members of the Cook family or are employees of Artz and Cook. Each of the directors receives a monthly fee of \$100. The corporate records for 2-1/2 years disclose that most of the meetings are less than one-half an hour in length. In Decision No. 76500 dated December 2, 1969 the Commission considered this issue and allowed \$25 per director per meeting. This record does not disclose any convincing reason to change this allowance.

Rent

Applicant and staff estimated rent to amount to \$1,500, anticipating an increase in shop rent of \$10 per month which will not occur in 1973. We will allow the current rent.

Total Operating and Maintenance Expenses

The total of the foregoing adopted amounts of operating and maintenance expenses is \$105,300. As a check on the adequacy of the estimate we added the regulatory deductions of \$3,000 for administrative salaries and \$6,600 for director fees to the \$105,300 and compared the resulting \$114,900 with the foregoing unadjusted operating and maintenance expenses for the years 1968 through 1972. The total \$114,900 is \$1,224 greater than the greatest recorded annual expenditure, \$113,676 in 1971. This difference increases to not less than \$6,224 when we eliminate the nonrecurring expenditure of more than \$5,000 to defend investor interests. Again, we note that the most recent total recorded unadjusted operating and maintenance expense was \$104,845, or \$10,055 less than our comparable estimate of \$114,900.

From a consideration of the trend of unadjusted operating and maintenance expenses it appears that an unadjusted total ranging from \$109,000 to \$117,000 would make adequate allowance for progressively increased costs in the test year.

Based on the foregoing we find that \$114,900 is a reasonable allowance for operating and maintenance expenses in the test year before considering regulatory adjustments and that \$105,300 is a reasonable allowance for operating and maintenance expenses for the purpose of establishing rates. The estimates of these expenses by both applicant and the staff are rejected as excessive.

Depreciation Expense

The difference between the estimates of depreciation expense appears to result from differences in estimates of utility plant installed in 1973. Since we hereafter adopt the staff plant estimate, we will adopt the staff estimate of depreciation expense.

Ad Valorem Taxes

Applicant estimated that ad valorem taxes in 1973 would be \$19,000 and the staff estimated them to be \$14,900. These taxes in 1971 were \$13,607 and in 1972 were \$14,471 after adjustment for taxes on nonutility property. We will adopt the staff's estimate of taxes other than income.

Rate Base

Utility Plant

Despite the small increase in customers, applicant has been following a program of replacement or lining corroded welded steel pipelines. Net plant additions for utility use during the past three years were:

1970	\$84,180
1971	\$48,955
1972	\$30,158

Applicant originally estimated that net plant additions of \$60,400 would be installed in 1973. Testimony by applicant's witness appears to confirm the staff estimate of \$26,000 based on more recent data. We will adopt \$1,084,000 for average utility plant in 1973. Other elements of the rate base do not appear to be in issue. We find reasonable the staff estimate of \$422,000 for the rate base in the test year.

Rate of Return

Applicant's summary of earnings at proposed rates indicates that a return of 7.9 percent would be earned on applicant's rate base.

The staff recommends a rate of return of 7.8 percent based upon consideration of capital structure of the utility, availability of funds for construction and other purposes, recently authorized rates of return on other water utilities, the relatively slow growth rate of Fruitridge Vista, and governmental efforts to control inflation. We adopt the recommendation of the staff.

Service

The staff made field investigations of the applicant's operations during May 1973. Plant and facilities were inspected, pressures checked, records examined, and customers interviewed. The distribution system appears to be properly designed and installed within the minimum standards set forth in General Order No. 103.

All the customers contacted by the staff seemed satisfied with the quality and quantity of water and indicated that the utility was providing good service. During 1972 there were no informal complaints filed against the utility.

The applicant's water supply permit was issued by the Department of Public Health in 1953. Water samples are collected and tested regularly and the results indicate that the quality of the water is satisfactory.

Public Presentation

One member of the public representing 53 customers requested that the rate increase be held as small as possible because of the limited income of the customers.

Accounting

At the present time applicant's accounting records are kept for income tax purposes and memorandum records are kept for reconciling the recorded data with the annual reports filed with the Commission. In addition, certain staff adjustments affecting balance sheet accounts resulting from the staff's examination in the prior rate increase proceeding are reflected in the memorandum records and are not recorded on applicant's books of account. The current examination resulted in staff adjustments affecting certain balance sheet accounts.

The staff recommends that:

- a. Applicant's annual report filed with this Commission reflects recorded figures.
- b. Applicant be directed to revise its books of account to reflect utility accounting as prescribed by this Commission and keep memorandum records for tax purposes.
- c. Applicant be directed to adjust its books of account to reflect the staff's adjusted figures as shown in Table II-B of Exhibit No. 1 in this proceeding.

Findings

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. Since each year after 1968 applicant has paid \$3,000 to its president and \$7,200 to its directors, it is reasonable to assume applicant will continue these expenditures in the future and will continue to include these expenditures in its determination of income taxes.
3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1973, reasonably indicate the results of applicant's operations in the near future.
4. A rate of return of 7.8 percent on the adopted rate base for the year 1973 is reasonable. Revenues will be increased by \$23,000 by the rates herein authorized.
5. 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.
6. The staff accounting recommendations are reasonable.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Fruitridge 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 schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. For the year 1973 and henceforth, applicant shall keep its books of accounts as prescribed in this Commission's Uniform System of Accounts for Water Utilities (Class A, Class B, and Class C) and keep such memorandum records for tax purposes as necessary.

3. All annual reports filed by applicant after January 1, 1974 with this Commission shall report recorded figures.

4. On or before March 15, 1973, applicant shall report in writing to the Commission the accounting entries by which it proposes to adjust its books of account to reflect the staff's adjusted figures as shown in Table II-B of Exhibit No. 1 in this proceeding.

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

Dated at San Francisco, California, this 22nd day of JANUARY, 1974.

Vernon L. Sturgeon
President
William J. Symons
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Fruitridge Vista, Sandra Heights, Pacific Terrace and Bowling Green subdivisions; and vicinity, south of Sacramento, Sacramento County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 600 cu.ft. or less	\$ 1.70	(I)
Next 4,400 cu.ft., per 100 cu.ft.17	
Over 5,000 cu.ft., per 100 cu.ft.13	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 1.70	
For 3/4-inch meter	2.80	
For 1-inch meter	4.50	
For 1 1/2-inch meter	9.50	
For 2-inch meter	13.50	
For 3-inch meter	24.00	
For 4-inch meter	38.00	
For 6-inch meter	76.00	(I)

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

(D)

APPENDIX A
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Schedule No. 2

FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Fruitridge Vista, Sandra Heights, Pacific Terrace and Bowling Green subdivisions, and vicinity, south of Sacramento, Sacramento County.

RATES

Per Service Connection
Per Month

- | | | |
|---|--------|-----|
| 1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area ... | \$3.25 | (I) |
| a. For each additional single-family residential unit on the same premises and served from the same service connection | 2.05 | (I) |
| b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. | 0.03 | |
| 2. For each automobile service station, including a car wash rack, where service connection is not larger than 1-inch in diameter | 6.75 | (I) |

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.

2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

(D)