

ORIGINAL

Decision No. 82686

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 54204
(Filed July 25, 1973;
amended August 29, 1973)

Richard C. Burton, Attorney at Law,
for applicant.
John D. Reader, for the Commission
staff.

O P I N I O N

Rogina Water Company (applicant), a California corporation, presently furnishes water as a public utility within the Rogina Heights-Talmage area of Mendocino County. Applicant requests an increase of approximately \$16,500 in general meter rates while leaving irrigation and fire hydrant rates unchanged.

Applicant's presently effective rates were established by Decision No. 76186 dated September 16, 1969 in Application No. 50764.

Applicant obtains water from three wells with a total capacity of 1,200 gallons per minute. The wells are equipped with turbine-type pumps complete with electric motors of 60 to 100 horsepower. The system also has two booster stations with centrifugal pumps, one of which is driven by an electric motor of 2 horsepower, the other is driven by an electric motor of 20 horsepower. There are two hydropneumatic tanks and two storage tanks with total capacity of 7,000 gallons and 620,000 gallons, respectively. The distribution

system consists of approximately 89,427 feet of steel and cement Dynel-lined asbestos-type pipe ranging in size from two inches to ten inches. There were 578 metered services, 17 metered irrigation services, 19 unmetered services, and 86 fire protection hydrants as of December 31, 1972.

Public hearing was held before Examiner Gillanders at Ukiah on January 3, 1974. Applicant had published, mailed, and posted notice of the hearings in accordance with this Commission's rules of procedure. The matter was submitted on January 7, 1974 upon receipt of late-filed Exhibit 7. No members of the public attended the hearing.

Testimony on behalf of applicant was presented by its president. Testimony on behalf of the Commission staff was presented by a registered professional engineer.

Results of Operation

The following tabulations show applicant's and staff's estimated results of operation for the test year 1973:

Item	Applicant		Staff	
	Pres. Rates	Prop. Rates	Pres. Rates	Prop. Rates
Operating Revenues	\$ 62,249	\$ 78,719	\$ 65,580	\$ 85,120
<u>Deductions</u>				
Operating Expenses	35,384	43,995	36,650	36,650
Depreciation	7,000	7,000	9,150	9,150
Taxes, Other	6,552	6,552	6,690	6,690
Income Taxes	1,451	3,649	1,030	6,700
Total Expenses	50,387	61,196	53,520	59,190
Net Operating Revenues	11,862	17,523	12,060	25,930
Rate Base	213,294	219,594	201,700	201,700
Rate of Return	5.56%	7.98%	5.98%	12.86%

Staff's Explanation of Differences

Revenues

Applicant based its estimate of 1973 revenues at present rates on average revenues as recorded since the last rate increase, which became effective October 6, 1969. The staff examined temperatures and rainfall for 30 years and average water use per customer for 10 years and concluded that an average of the last three years is reasonably representative of a normal water use year. The number of commercial customers averaged 523 in 1970, 545 in 1971, and 568 in 1972; the staff estimated 584 for 1973. Applicant's 1973 estimate was derived by taking an average of the last three years' recorded amounts plus \$1,000 for customer growth. Applicant's estimate of 1973 revenues at proposed rates is about 9 percent lower than the staff estimate because of an error in calculation.

Operating Expenses

Applicant estimated different operating expenses at present rates and at proposed rates, because it would only be able to furnish a minimum of service at present rates, but would increase the quality of service at proposed rates. The staff analyzed the utility's operations and concluded that several service functions, particularly meter testing and maintenance, have been neglected in the past. The staff's estimate for 1973 is shown in the following tabulation:

Summary of Operating Expenses

Item	Recorded		Applicant's		Staff		Applicant		Staff 1973	
	1971	1972	1973 Estimate	(Impr. Service)	1973 Estimate	Exceeds	1973 Est.	Est.	Exceeds	1972 Recorded
Power	\$ 7,211	\$ 8,053	\$ 8,500		\$ 8,500 ^{h/}	\$ -		\$ 450 ^{a/}		
Payroll	10,938	12,623	19,160		14,220 ^{h/}	4,940		1,600 ^{b, h/}		
Materials	1,564	2,507	4,155		3,410	745		900 ^{c/}		
Contract Work	960	295	1,000		300	700		-		
Office Supplies	1,740	1,253	2,030		1,250	780		-		
Insurance	1,377	1,447	3,160		3,050	110		1,600 ^{d/}		
Acc. & Legal	2,850	2,845			2,050			(800) ^{e/}		
General	897	850	2,990		1,250	(310)		400 ^{f/}		
Vehicle	1,379	1,421	1,800		1,420	380		-		
Rent	360	360	1,200		1,200	-		840 ^{g/}		
Total Expenses	29,276	31,654	43,995		36,650	7,345		4,990		

(Red Figure)

- a/ For additional power.
- b/ For an added employee to perform heretofore deferred maintenance.
- c/ For meter maintenance.
- d/ For employee benefits furnished since 1-1-73.
- e/ For added regulatory expense of \$250 per year less savings from discontinued quarterly stockholders' reports.
- f/ For directors' fees not heretofore paid.
- g/ For newer, larger office.
- h/ Not including \$1,500 chargeable to plant improvements.

Depreciation Expense

By Decision No. 76186 dated September 19, 1969 in Application No. 50764, the Commission ordered applicant to use the straight-line remaining-life accrual method. The rates by accounts were to be reviewed at intervals of five years. The next review is due in 1974. The staff computed the estimated 1973 accrual on the basis of the presently effective rates by accounts which appear reasonable for use in this proceeding. Applicant's estimate is \$2,150 lower due to an error in the method of computation.

Taxes Other than on Income

Applicant's and staff's estimates are slightly different due to different estimates of payroll.

Income Taxes

Applicant used the average of an expired tax rate and the presently effective tax rate to compute state income taxes. The staff used the presently effective tax rate. Applicant estimated a further increase in debt resulting in interest of about \$8,200. The staff used present interest of about \$7,000. Applicant computed no investment tax credit; the staff used the last five years' average plant additions at 4 percent.

Rate Base

Applicant included estimated 1973 plant additions of about \$15,000. The staff determined that as of mid-September 1973 no such plant additions were made and none were planned to be made during the remainder of the year. At the hearing applicant testified that additions to plant made after September totaled \$1,300 of which \$800 was advances for construction. Such construction, if considered in the staff's rate base calculations, would have little effect.

Applicant's Explanation

According to applicant's president, if its rate increase is granted, the funds thus obtained will be used for the following purposes:

1. Pay outstanding bills.
2. Refund advances for construction.
3. Do maintenance deferred during past years.
4. Repair and replace meters. Fifty percent of the meters are 10 years old or older and 24 percent of the meters should be replaced under AWA standards.
5. Give employees a raise in pay.
6. Spend \$8,000 required by the State Board of Health.

Rate of Return

Applicant's results of operations at proposed rates show a resultant rate of return of 7.98 percent. The staff's results of operations at proposed rates show a resultant rate of return of 12.86 percent.

The staff is of the opinion that the rate of return requested by the applicant, i.e., 7.98 percent for the estimated year 1973, is fair and reasonable. This rate of return when applied to the staff's 1973 estimated rate base of \$201,700 would produce net operating revenues of approximately \$16,100. Gross revenues required at this rate of return for the estimated year 1973 will amount to \$71,270, an increase in revenues over revenues at present rates of approximately 9 percent.

Discussion

Our analysis of the record shows that applicant has paid interest during the past five years as follows:

1972	\$7,018
1971	6,979
1970	5,660
1969	5,242
1968	3,043

There is nothing in this record to substantiate applicant's claim of \$8,200 for test year interest payments. We will use \$7,000 in our income tax calculations as being in the zone of reasonableness. Applicant has outstanding debt of \$81,340 with an effective interest rate of approximately 8.63 percent as of December 31, 1972. The staff has not questioned applicant's debt structure or interest payments.

Our analysis of the record shows that the stockholders have an equity of approximately \$111,000. We believe that the stockholders of applicant certainly are entitled to at least the same return on their money as they must pay to those who lend them money. It follows therefore that applicant could fairly be allowed at least \$9,579 for return on equity (8.63 percent) and \$7,018 for interest payments, or a net revenue of \$16,597.

We believe the staff has estimated rate base in accordance with our traditional concept of original cost. Thus, it follows that the rate of return to be allowed in this proceeding should be at least $\$16,597 \div \$201,700$ or 8.20 percent.

Having determined a net revenue requirement and rate base, we should determine applicant's revenue requirement based on reasonable operating expenses.

The largest difference between staff and applicant is in the item of payroll. The staff witness believes Mr. Rogina's salary should be \$800 per month. Mr. Rogina believes it should be \$1,000 per month. During cross-examination the staff witness testified that in effect he was allowing \$1,000 per month - \$800 in expense accounts and \$200 capitalized. We were impressed by Mr. Rogina's testimony regarding his operation of the system. He is the president, engineer, constructor, maintenance man, and bookkeeper. He is available 24 hours a day, seven days a week in the tract to care for his system. He is assisted by a part-time secretary and a part-time 16-year-old high school boy. His devotion to the system and his expertise in running the system is exemplified by the unusual occurrence of having not one customer appear at the hearing to complain about anything. Surely a man of this caliber is entitled to a salary of \$1,000 per month.

We agree with applicant's attorney that it is somewhat farfetched for a witness to claim that \$200 per month should be capitalized when the same witness allowed not one dollar increase in his estimated rate base. The capitalizing of overheads has long been a "grey area" of regulation. This record reveals that applicant stopped capitalizing overheads in 1970. We believe that not capitalizing overheads is, for this water company, proper accounting.

Twelve thousand dollars per year for Mr. Rogina, plus a total of \$7,160 for secretarial, construction, and increased maintenance labor, does not appear unreasonable. The staff's estimate of depreciation is reasonable and is adopted. We will adopt applicant's remaining estimates as being reasonable as the differences between its and staff's estimates are negligible.

We agree with the staff's estimate of revenues to be produced by applicant's proposed rates. On the staff revenue basis the results of operation would be:

Revenues	\$ 85,120
<u>Deductions</u>	
Operating Expenses	44,000
Depreciation	9,150
Taxes, Other	6,550
Income Taxes	<u>4,610</u>
Total Expenses	64,310
Net Operating Revenues	20,810
Rate Base	201,700
Rate of Return	10.3%

The proposed rates on the above basis produce an unreasonably high net revenue. We will therefore authorize rates that should produce a rate of return of 8.20 percent as shown in the following results of operation:

Revenues	\$ 79,180
<u>Deductions</u>	
Operating Expenses	44,000
Depreciation	9,150
Taxes, Other	6,550
Income Taxes	<u>2,880</u>
Total Expenses	62,580
Net Operating Revenues	16,600
Rate Base	201,700
Rate of Return	8.2%

On the above basis, applicant is entitled to an increase of \$13,600 in gross revenues.

Service

The staff made a field inspection of applicant's system, examined books and records, and concluded that applicant is furnishing reasonably good service.

According to applicant the State Board of Health has inspected its system and has recommended improvements totaling \$8,000.

The staff's recommendation that, for purposes of simplification, the number of quantity rate blocks be reduced from five to four is reasonable and will be adopted.

Findings

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 1973 indicate that results of applicant's operation in the near future will produce a reasonable rate of return.

3. A rate of return of 8.20 percent on the adopted rate base and return on common equity of 8.63 percent for the future is reasonable.

4. The increases in rates and charges authorized herein totaling \$13,600 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. Service meets the requirements of General Order No. 103.

6. Applicant should pay the salaries and do the maintenance work its president testified it would do if rates were increased.

Conclusion

The application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that Rogina Water Company is authorized to file the revised schedules attached to this order as Appendix A and concurrently to cancel its present schedules for such service. The filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 2nd
day of APRIL, 1974.

Vernon L. Sturgeon
President
William J. Quinn
William J. Quinn
William J. Quinn
William J. Quinn
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service.

TERRITORY

Talmage and vicinity, near Ukiah, Mendocino County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 500 cu.ft. or less	\$ 4.00	(I)
Next 1,000 cu.ft., per 100 cu.ft.45	
Next 3,500 cu.ft., per 100 cu.ft.35	
Over 5,000 cu.ft., per 100 cu.ft.20	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 4.00	(I)
For 3/4-inch meter	5.00	
For 1-inch meter	6.00	
For 1 1/2-inch meter	8.00	
For 2-inch meter	11.00	
For 3-inch meter	24.00	
For 4-inch meter	60.00	(I)

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