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Decision No. 84071

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
ARVIN WATER COMPANY, a corporation,
for an order authorizing it to
increase rates charged for water
service; and to establish a rate for
fire protection, within its certifi-
cated area, Sacramento County,
California.

Application No. 54819
(Filed April 22, 1974)

Martin McDonough and Bruce McDonough, Attorneys
at Law, for Arvin Water Company, applicant.
John E. Brown, for the Commission staff.

O P I N I O N

Proceeding

After due notice hearing in this matter was held before Examiner Coffey at Fair Oaks, California, on September 10 and 11, 1974. The matter was submitted on October 29, 1974 upon the receipt of late-filed exhibits and transcripts.

The Arvin Water Company is a family-owned water utility serving water for domestic and commercial purposes to about 3,400 customers in an unincorporated area to the north of the town of Carmichael in Sacramento County.

Applicant is requesting about a 30 percent increase in operating revenues. This is the first rate increase requested by applicant in eleven years. In 1964, applicant voluntarily reduced its rates to pass on to its customers tax savings resulting from changes in income tax regulations. Authority is also requested to file rates for private fire protection service and public fire hydrant service.

Applicant presented two witnesses and 17 exhibits in support of its request. The staff presented the results of its investigation of this application.

No customer opposed the rate increase.

Rates

The following tabulation compares applicant's present and proposed general metered service rates:

| | | <u>Per Meter Per Month</u> | |
|------------------------|------------------------------------|----------------------------|-----------------|
| | | <u>Present</u> | <u>Proposed</u> |
| | | <u>Rates</u> | <u>Rates</u> |
| Quantity Rates: | | | |
| First | 800 cu.ft. or less | \$ 3.90 | \$ 5.10 |
| Next | 4,200 cu.ft., per 100 cu.ft. | .25 | .325 |
| Next | 5,000 cu.ft., per 100 cu.ft. | .20 | .26 |
| Next | 10,000 cu.ft., per 100 cu.ft. | .15 | .195 |
| Over | 20,000 cu.ft., per 100 cu.ft. | .125 | .1625 |

Minimum Charge:

| | | | |
|-----|----------------------------|---------|---------|
| For | 5/8 x 3/4-inch meter | \$ 3.90 | \$ 5.10 |
| For | 3/4-inch meter | 4.50 | 5.85 |
| For | 1-inch meter | 8.25 | 10.73 |
| For | 1 1/2-inch meter | 12.65 | 16.45 |
| For | 2-inch meter | 18.40 | 23.92 |
| For | 3-inch meter | 30.25 | 39.33 |
| For | 4-inch meter | 58.75 | 76.38 |
| For | 6-inch meter | 86.75 | 112.78 |

Applicant's present and proposed rates for residential flat rate service are set forth in the following tabulation:

| | | <u>Per Service Connection</u> | |
|--|--|-------------------------------|-----------------|
| | | <u>Per Month</u> | |
| | | <u>Present</u> | <u>Proposed</u> |
| | | <u>Rates</u> | <u>Rates</u> |

For each residential unit including a lot having an area of:

| | | | |
|------|---|---------|---------|
| | 7,000 sq.ft. or less | \$ 3.80 | \$ 4.95 |
| Over | 7,000 sq.ft. to 9,000 sq.ft. | 4.10 | 5.35 |
| Over | 9,000 sq.ft. to 11,000 sq.ft. ... | 4.40 | 5.70 |
| Over | 11,000 sq.ft. to 13,000 sq.ft. ... | 4.70 | 6.10 |
| Over | 13,000 sq.ft. to 15,000 sq.ft. ... | 5.00 | 6.50 |
| Over | 15,000 sq.ft. to 20,000 sq.ft. ... | 5.90 | 7.65 |
| Over | 20,000 sq.ft., for each additional 1,000 sq.ft. or fraction thereof | .10 | .13 |

For each noncirculation type evaporative room cooler, during the months of May through September, inclusive, in addition to single-family residence rate

.65

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Results of Operation

The estimated summaries of earning for the test year 1974, under present and proposed rates, prepared by applicant and by the staff, as summarized in staff Exhibit No. 18, are compared in the following tabulation with results adopted for the purpose of this proceeding:

Summary of Earnings
(Revised)

| Item | Applicant | | Staff | | Adopted |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| | Present | Proposed | Present | Proposed | |
| | Rates | Rates | Rates | Rates | |
| <u>Estimated Year 1974</u> | | | | | |
| Operating Revenue | \$189,800 | \$246,900 | \$189,800 | \$246,900 | \$235,000 |
| Operating Expense | | | | | |
| Oper. & Maint. | 141,685 | 141,685 | 130,300 | 130,300 | 141,080 |
| Taxes Other Than | | | | | |
| Income | 9,300 | 9,300 | 9,300 | 9,300 | 9,300 |
| Depreciation | 26,560 | 26,560 | 25,600 | 25,600 | 25,600 |
| Income Taxes | 2,886 | 29,436 | 6,800 | 36,200 | 24,300 |
| Total Expenses | 180,431 | 206,981 | 172,000 | 201,400 | 200,280 |
| Net Operating Revenue | 9,369 | 39,919 | 17,800 | 45,500 | 34,720 |
| Depreciated Rate Base | 408,395 | 408,395 | 390,600 | 390,600 | 390,600 |
| Rate of Return | 2.3% | 9.8% | 4.6% | 11.6% | 8.9% |

Applicant accepted the staff estimates except for differences in administrative salaries, vehicle expense, water treatment expense, depreciation expense, and rate base.

Administrative Salaries. Applicant's estimate of payroll exceeds that of the staff by \$9,045 in 1974. The staff's estimate for the manager's salary is \$18,000 per year compared to applicant's estimate of \$28,000 for 1974.

In support of its estimate the staff argued that inasmuch as the owner of this utility is also the general manager the establishment of an appropriate salary level is not an arm's length transaction. The staff based its estimate upon a review of payroll,

customers, and manager salaries of three water utilities in the Sacramento area. Two of the systems utilized by the staff are districts of statewide water utilities and the third has a president and hired manager. None of these are comparable to the operations of applicant.

Applicant's president is an actively working manager who organizes and directs the work of the other employees, designs and develops plant additions, designs and develops sources of water supplies, engineers plant relocation, prepares and records required documents of public record, prepares annual reports to this Commission, audits books and reviews financial statements monthly, makes all purchase decisions involving \$100 or more, hires and fires personnel, does most of drafting and map preparation work, prepares design criteria system components, represents the company in financial transactions, handles customer complaints that cannot be resolved by other employees, acts as public relations spokesman, performs regular engineering inspection of all equipment and facilities, makes bank deposits and audits cash receipts, and designs performance standards to be met by outside contractors. We note that applicant has not requested a rate increase in over eleven years. We will adopt applicant's estimate of payroll.

Vehicle Expense. The \$606 difference between applicant and staff in vehicle expense results from the estimates of the cost of gasoline. Applicant's witness testified that it overestimated the price of gasoline at \$.75 per gallon, but maintained that its estimate was reasonable since vehicle maintenance expense will be higher than estimated. We will adopt the staff estimate of vehicle expense based on more recent data.

Water Treatment Expense. Applicant's estimate of water treatment expense exceeds that of the staff by \$1,734 in 1974. The staff used a four-year average for this expense. Applicant used the physical quantities of the chemicals consumed in 1973 and the dosage estimated for 1974, and priced out these chemicals at current prices. Considering the recent sharp increases in chemical prices, we will adopt applicant's estimate of water treatment expense.

Operating Expense. We will adopt the staff's estimates of operating and maintenance expenses increased by \$9,045 for payroll and \$1,734 for water treatment expenses.

Depreciation Expense and Rate Base. The depreciation and rate base differences relate to the amount of utility plant in service and to whether or not utility plant in service for a part of the year should be rolled back to effect full-year weighting in the rate base.

The staff estimate originally excluded a \$20,000 standby generator included in applicant's estimates. Applicant had indicated to the staff it would defer the purchase of the generator. At the hearing applicant submitted a new estimate of so-called "nonrevenue producing utility plant" to be installed in 1974. The new total of \$54,974 is to be compared with the \$46,727 originally estimated. Most of the increase resulted from proposed tie-in mains to the Citrus Heights Irrigation District so that imported water can be received.

After review of applicant's new proposal, the staff increased its depreciation expense and rate base by including the 1974 plant additions weighted to reflect the portion of the year the additions would be in service.

Applicant argued that its plant additions should be treated as if they were installed and in service at the beginning of the test year. Applicant cited a number of Commission decisions

in which such a procedure had been accepted when the plant was "nonrevenue producing." The staff argued that such rollback is applicable to major plant changes which will not be repeated in the future to any great extent. The staff pointed out that a review of the history of applicant's plant additions reveals that the proposed 1974 plant additions are not unusual in amount but are normal. Thus, applicant can be expected to have similar normal additions each year in the future to which rollback is not appropriate.

We shall adopt the staff estimate of depreciation expense and rate base. There are additional reasons for the soundness of the staff position. The classification of "nonrevenue producing" plant as the criteria for rollback requires close scrutiny in each instance. A large office building might be assumed to be "nonrevenue producing" if revenue is defined as being produced from customers. However, even here miscellaneous revenues may be produced if space is available for rent to others. It is easy to argue that an interconnection with a neighboring utility will not cause revenues to increase in the same manner that revenue will increase when a new home is connected to the system. If this argument is to be accepted it would be necessary to demonstrate that such interconnection would not increase pressure and would not eliminate water service outages, both of which would increase revenue.

The use of rollback to the beginning of a test period for plant installed during the period is acceptable only as an expedient substitute for inclusion of the plant in a test period in the future when the rates to be authorized will be in effect and which fully reflects future estimates of customer growth, expenses, and plant. The rollback of plant in a test period without adjustment of revenue can only be justified when the added plant is so unique in character and amount that it can be considered nonrecurring.

Rate of Return

Applicant made no showing as to the reasonableness of any rate of return. The staff report contains the following statements on the subject:

"The staff results indicate an upward trend in rate of return of 0.3% to 0.4%. It is recommended that no consideration of trend in rate of return be given in this proceeding.

* * *

"Applicant has requested rates for water service which Exhibit I, attached to its application, indicates would produce a rate of return of 8.9% on rate base. The staff believes that 8.9% is a reasonable rate of return to be applied to the rate base found reasonable by the Commission for the estimated year 1974.

"In arriving at its recommended rate of return the following were considered:

- "1. Capital structure.
- "2. Current costs of capital.
- "3. Rate of return recently allowed other utilities.
- "4. The high ratio of advances for construction to total capital, i.e., as of December 31, 1973, approximately 45%."

We will accept the staff recommendations.

Service

A field investigation of applicant's operations and facilities was made by the staff during May 1974. The facilities and equipment appeared to be in good condition and adequately maintained.

A review of customer complaints in applicant's files for 1973 and 1974 revealed a total of 54 items, the majority concerning taste and odor of water. The company has been taking prompt action to resolve all complaints. Since 1972, there have been no informal complaints to the Commission.

The staff interviewed several customers who indicated that service is satisfactory. System pressures range from 52 pounds psig to 70 pounds psig, which is well above the minimum required by General Order No. 103, Standards of Water Service.

Findings

1. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1974 reasonably indicate the results of applicant's operations in the near future.

2. A rate of return of 8.9 percent on the adopted rate base is reasonable.

3. Revenues will be increased \$45,200 by the rates herein authorized.

4. Applicant should be authorized to file rates for private fire protection service and public fire hydrant service.

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.

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 after the effective date of this order Arvin Water Company is authorized to file the rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall be four days after the date of filing. These 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 11th
day of FEBRUARY, 1975.

Vernon L. Lutz
President
William L. Lutz
Edward Ross
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Carmichael and vicinity, Sacramento County.

(T)

RATES

Quantity Rates:

| | Per Meter Per Month | |
|---|------------------------|-----|
| First 800 cu.ft. or less | \$ 5.00 | (I) |
| Next 4,200 cu.ft., per 100 cu.ft. | .32 | |
| Next 5,000 cu.ft., per 100 cu.ft. | .26 | |
| Next 10,000 cu.ft., per 100 cu.ft. | .19 | |
| Over 20,000 cu.ft., per 100 cu.ft. | .16 | |

Minimum Charge:

| | | |
|--------------------------------|---------|-----|
| For 5/8 x 3/4-inch meter | \$ 5.00 | |
| For 3/4-inch meter | 5.80 | |
| For 1-inch meter | 10.50 | |
| For 1 1/2-inch meter | 16.30 | |
| For 2-inch meter | 23.75 | |
| For 3-inch meter | 39.00 | |
| For 4-inch meter | 75.00 | |
| For 6-inch meter | 110.00 | (I) |

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. 2R

RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Carmichael and vicinity, Sacramento County.

(T)

RATES

Per Service Connection
Per Month

For each residential unit including a
lot having an area of:

(T)

(T)

| | | |
|---|---------|-----|
| 7,000 sq.ft., or less | \$ 4.65 | (I) |
| Over 7,000 sq.ft., to 9,000 sq.ft. | 5.05 | |
| Over 9,000 sq.ft., to 11,000 sq.ft. | 5.45 | |
| Over 11,000 sq.ft., to 13,000 sq.ft. | 5.85 | |
| Over 13,000 sq.ft., to 15,000 sq.ft. | 6.25 | |
| Over 15,000 sq.ft., to 20,000 sq.ft. | 7.25 | |
| Over 20,000 sq.ft., for each additional .. 1,000 sq.ft., or fraction thereof | .12 | (I) |

(D)

SPECIAL CONDITIONS

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

2. Meters may be installed at option of utility or customers for the above classifications in which event service thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service, and must be continued under Schedule No. 1 for not less than 12 months before it may again be changed to flat rate service.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Carmichael and vicinity, Sacramento County.

RATE

For each inch of diameter of service
connection

Per Month

\$1.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Carmichael and vicinity, Sacramento County.

RATE

Per Month

For each hydrant \$2.50

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.