

Decision 88 02 010

FEB 10 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 the D. J. Nelson Family Trust, dba)
 FRUITRIDGE VISTA WATER COMPANY,)
 for authority to increase rates:)

Application 87-04-042
 (Filed April 23, 1987)

John D. Reader and Dan Stockton, for
 Fruitridge Vista Water Company,
 applicant.

Lawrence O. Garcia, Attorney at Law, and
Richard Finnstrom, for the Commission
 Advisory and Compliance Division.

OPINION

By this application D. J. Nelson Family Trust, doing business as Fruitridge Vista Water Company (Fruitridge), a class B water company, requests authority to increase rates for water in its service area, located in an unincorporated part of Sacramento County adjacent to the southern limits of the City of Sacramento. The utility serves 4,233 flat rate customers, 333 fire hydrants, and 267 metered customers. A duly noticed public hearing was held before Administrative Law Judge (ALJ) John Lemke in Sacramento September 9, 1987. An informal public meeting was held during the evening of June 23, 1987. Only two persons attended this meeting. The proceeding was submitted with the filing of briefs October 12, 1987.

Increases in total revenue and corresponding percentages requested by Fruitridge based upon its original request for a 11.0% rate of return, are as follows:

1987	\$115,910	20.01%
1988	26,220	3.77%
1989	22,370	3.10%

Fruitridge amended its requested rate of return to 10.75% during the hearing.

Fruitridge also requests the recovery of \$56,470 undercollection in its electric power balancing account, with an average increase of 75 cents per month from residential flat rate customers, and 3.7 cents per 100 cubic feet of water sold to metered customers.

The utility's last general rate increase was authorized by Resolution W-3083 dated March 2, 1983, where Fruitridge was granted revenue increases sufficient to earn a rate of return of 11.5%.

The following table is a comparison of the rate of return estimates by the Commission Advisory and Compliance Division Staff (staff) and Fruitridge for each test year at present and proposed rates:

Rates of Return

Item	Staff			Utility		
	1987	1988	1989	1987	1988	1989
Rate of Return Present Rates	4.4%	2.6%	0.9%	1.0%	-0.9%	-2.8%
Rate of Return Proposed Rates	12.9%	12.9%	13.0%	11.0%	11.0%	11.0%

The following three Summary of Earnings tables are derived from Fruitridge's Exhibit 3:

TABLE A
(Page 1)
FRUITRIDGE VISTA WATER COMPANY
SUMMARY OF EARNINGS

Test Year 1987

Item	Staff	Fruitridge	Adjustments	Adjusted	Results
	Present Rates (A)	Proposed Rates (B)	Present Rates	Proposed Rates	Present Rates Proposed Rates
(Dollars in Thousands)					
Revenues	579.6	695.7			579.6 695.6
Undercollection	0.0	28.2 <u>1/</u>		9.5 <u>3/</u>	0.0 37.7
Total Revenue	579.6	723.8		9.5 <u>3/</u>	579.6 733.3
Expenses					
Oper. & Maint.	260.8	260.8			260.8 260.8
Admin. & Gen.	184.0	184.0	19.1 <u>4/</u>	19.1 <u>4/</u>	203.1 203.1
Exp. Capitalized	(3.0)	(3.0)			(3.0) (3.0)
Taxes Other					
Than Income	29.0	29.5			29.0 29.5
Deprec. Exp.	66.9	66.9			66.9 66.9
CCFT	1.8	12.8	(1.8)	(1.8)	0.0 11.0
FIT	0.0	27.6		(7.3)	0.0 20.3
Total Expenses	539.4	578.6	17.3	10.0	556.8 588.6
Net Income <u>2/</u>	40.2	117.0			22.8 107.0
Adj. Rate Base	903.4	903.4	1.9 <u>5/</u>	1.9 <u>5/</u>	905.2 905.2
Rate of Return <u>2/</u>	4.44%	12.95%			2.52% 11.83%

1/ Staff's undercollection of \$56,470 amortized over a 2-year period as a separate tariff entry.

2/ Does not include undercollection

3/ Adjustment to obtain Fruitridge undercollection of \$56,500 amortized over a 14-year period as a separate tariff entry.

4/ Fruitridge requests the \$19,130 staff has excluded from management salaries.

5/ Additional working cash due to increased operating expenses.

TABLE A
(Page 2)
FRUITRIDGE VISTA WATER COMPANY
SUMMARY OF EARNINGS

Test Year 1988

Item	Staff		Fruitridge Adjustments		Adjusted Results	
	Present Rates (A)	Proposed Rates (B)	Present Rates	Proposed Rates	Present Rates	Proposed Rates
(Dollars in Thousands)						
Revenue	580.6	721.6			580.6	721.6
Undercollection	0	28.3 <u>1/</u>		(9.5) <u>3/</u>	.0.0	18.8
Total Revenue	580.6	749.9		(9.5) <u>3/</u>	580.6	740.4
Expenses						
Oper. & Maint.	267.8	267.8			267.8	267.8
Adm. & Gen.	190.9	190.9	20.2 <u>4/</u>	20.2 <u>4/</u>	211.1	211.1
Exp. Capitalized	(3.0)	(3.0)			(3.0)	(3.0)
Taxes Other Than Income	30.2	30.7			30.2	30.7
Deprec. Exp.	69.4	69.4			69.4	69.4
CCFT	0.2	13.6	(0.2)	(2.0)	0.0	11.6
FIT	0.0	29.6		(2.8)	0.0	21.8
Total Expenses	555.5	599.0	20.0	10.4	575.5	609.4
Net Income <u>2/</u>	25.1	122.6			5.1	112.2
Adj. Rate Base	948.3	948.3	1.9 <u>5/</u>	1.9 <u>5/</u>	950.2	950.2
Rate of Return <u>2/</u>	2.65%	12.93%			0.54%	11.81%

1/ Staff's undercollection of \$56,470 amortized over a 2-year period as a separate tariff entry.

2/ Does not include undercollection.

3/ Adjustment to obtain balance of Fruitridge undercollection (\$6,500-\$37,700=\$18,800) amortized over a 1-1/2-year period as a separate tariff entry.

4/ Fruitridge requests the \$20,180 staff has excluded from management salaries.

5/ Additional working cash due to increased operating expenses.

TABLE A
(Page 3)
FRUITRIDGE VISTA WATER COMPANY
SUMMARY OF EARNINGS

Test Year 1989

Item	Staff		Fruitridge Adjustments		Adjusted Results	
	Present Rates (A)	Proposed Rates (B)	Present Rates	Proposed Rates	Present Rates	Proposed Rates
(Dollars in Thousands)						
Revenue	581.4	743.9			581.4	743.9
Undercollection	0.0	0.0			0.0	0.0
Total Revenue	581.4	743.9			581.4	743.9
Expenses						
Oper. & Maint.	275.1	275.1			275.1	275.1
Adm. & Gen.	198.3	198.3	21.1 <u>1/</u>	21.1 <u>1/</u>	219.4	219.4
Exp. Capitalized	(3.0)	(3.0)			(3.0)	(3.0)
Taxes Other						
Than Income	31.0	31.6			31.0	31.6
Deprec. Exp.	71.4	71.4			71.4	71.4
CCFF	0.2	14.0	(0.2)	(2.0)	0.0	12.0
FIT	0.0	30.5		(8.0)	0.0	22.5
Total Expenses	573.0	617.9	20.9	11.1	593.9	629.0
Net Income	8.4	126.0			(12.5)	114.9
Adj. Rate Base	971.4	971.4	1.9 <u>2/</u>	1.9 <u>2/</u>	973.3	973.3
Rate of Return	0.87%	12.97%			(loss)	11.81%

1/ Fruitridge requests the \$21,090 staff has excluded from management salaries.

2/ Additional working cash due to increased operating expenses.

The first two columns in each table are taken from the staff report (Exhibit 7). John Reader, the utility's consultant and witness has also shown the Fruitridge recommended adjustments. Staff has recommended disallowance of portions of Fruitridge's requested management salaries. This is one of the two principal areas of dispute in this proceeding. The other involves the amortization of \$56,470 undercollection in Fruitridge's electric power balancing account. The utility proposes to collect this amount over a period of 18 months; the staff recommends that it be amortized over a two-year period. The company and staff also differ by 1/4% in the sought and recommended rate of return.

Amortization of Undercollection
in Electric Power Balancing Account

The staff position is based on the policy set forth in the document titled "Procedures for Maintaining Balancing Accounts for Water Utilities" adopted by the Commission at the conference of May 18, 1983. The pertinent part of the policy states:

"Balances whose absolute values are less than 5% of the gross annual revenues adopted for the most recent test year, or in the most recent annual report on file, are to be amortized over one year. Balances exceeding 5% will be amortized over periods greater than 1 year."

Staff determined that the undercollection involved is greater than 8% (Exhibit 7, p. 2-2). It recommends that a surcharge be applied for two years at the rate of 1.9 cents per Ccf from metered customers, and 37 cents per customer per month from flat rate customers. In a recent proceeding involving Uehling Water Company and Park Water Company (Decision (D.) 87-09-071, in Applications (A.) 86-11-021 and A.86-11-022) we approved amortization of balancing accounts amounts over a period of two years. In Rogina Water Co. (D.87-05-025) we authorized amortization over three years. In Uehling/Park the balancing account amount was 5.3% of revenue; in Rogina the amount was

10.05%, and involved an overcollection requiring the utility to make refunds. The three year amortization period lessened the impact of refunds on the utility.

Fruitridge had originally requested amortization of this undercollection over a one year period, but modified its request to 18 months in light of the policy stated above.

Reader stated during the hearing that the undercollection had grown by \$13,151 during a five-month period ending August 1, 1987. However, the company has not requested that this additional amount be added to the \$56,470 originally sought.

Sacramento Municipal Utility District (SMUD) has been increasing its rates at least annually. Fruitridge notes that if it were required to spread the undercollection recovery over 24 months, such period would likely include two SMUD rate increases during a time when it not only would not have recovered the existing undercollection, but would have accumulated further undercollections. The company states that while it is aware it may file a request for an offset increase in the event such a rate increase is imposed by SMUD, the SMUD increase is likely to occur on March 1, 1988, not long after this rate request is decided; that it would prefer to reduce the magnitude of such an offset, or even possibly delay filing such an offset request.

Under Fruitridge's 18-month proposal for recovery of the undercollection, flat rate customers would pay a 47 cents per month surcharge, metered customers approximately 2.5 cents per Ccf.

Adoption of the company's requested 18-month recovery period will not impose a hardship on Fruitridge's customers, will reduce this comparatively sizeable undercollection more quickly, thereby improving the utility's present cash flow, and hopefully defer the necessity of filing an offset, or at least minimizing the amount of any offset request caused by increased SMUD costs. The 18-month recovery period requested by Fruitridge will be adopted. The surcharge established to effect this recovery will expire 18 months after its effective date.

Rate of Return

Staff recommended allowance of a rate of return of 10.5% on rate base, compared with 10.75% requested by the company. The Accounting and Financial Branch of the Commission and Advisory and Compliance Division recommends a range of 10.25% to 10.75% as the current "standard" rate of return for 100% equity financed small water utilities with annual revenues less than \$750,000. Staff normally recommends adoption of the midpoint rate of return for utilities providing satisfactory service.

Only two customers attended the public meeting held in the Fruitridge Community Center June 23. Neither customer complained about the utility's service. Of eight letters received in response to the application, three contained complaints regarding water quality, and two complained about lack of adequate pressure for operation. The others merely questioned the need for the rate increase. This apparent expression of general customer contentment indicates to us a satisfactory level of service. In the circumstances, we believe Fruitridge should be allowed the opportunity to earn the mid-point of the staff-recommended range for rate of return, or 10.5%. This return is adequate in light of Fruitridge's comparative low-risk position.

Management Salaries

Staff estimates for management salaries are lower than Fruitridge's by \$19,130 for test year 1987, \$20,180 for 1988, and \$21,090 for 1989. Staff excluded payments to be made to one of the proposed part-time managers, Mr. Robert Cook, because staff found no evidence that Cook spends regular hours at the utility offices. Staff has allowed the salary for one part-time operations manager, Dan Stockton. Stockton described Cook's activities as those of a financial manager; Cook further equates his role to president of the company. Fruitridge has a 100% equity capitalization, has issued no bonds or new stock, and is owned entirely by a trust. Staff believes that such ownership arrangement does not necessitate

the regular, day-to-day expertise required with larger companies whose financial circumstances fluctuate. Furthermore, staff asserts there is no growth in the company which might require the making of important financial management decisions.

Robert Cook stated that he has been the financial manager of the company since control of the corporate utility was transferred to the family trust in December 1986. Prior thereto, other corporate officers handled Fruitridge's financial affairs. He was on Fruitridge's board of directors with four other people, and now performs the same functions performed by the board prior to acquisition of the company by the trust. The board met each month directing the operation of the company, and gave directions to the operations manager concerning the policies to be carried out.

D.86-12-065, dated December 17, 1986 in A.86-10-037 authorized George Cook, Executor of the estate of Margaret Cook, to sell the utility to the D. J. Nelson Family trust. Margaret Leary and Robert Cook are heirs of Margaret Cook and beneficiaries under her will. D. J. Nelson, also known as D. J. Nelson Cook and also as Jane Cook, is the wife of Robert Cook. The trust was established by Robert Cook irrevocably for the benefit of his and Jane Cook's children, with D. J. Nelson (Jane Cook) as trustee of the trust. Jane Cook has no management responsibility for the utility.

As examples of his financial management input, Cook mentioned the spending of \$85,000 recently to connect two portions of the system in order to improve water flow; the purchase of new company vehicles; and the acquisition and placement on line of a computer to improve operational efficiency.

Fruitridge is requesting \$46,230 in total management salary for test year 1987. This figure covers both financial and operations management. Stockton testified that he works for Fruitridge during the mornings and for Elk Grove Water Company (Elk Grove) in the afternoons. He stated that Elk Grove received a rate

increase in May 1987 under Resolution W-3364 which recognized a total management salary of \$48,150. Elk Grove serves approximately 4,745 customers, compared with approximately 4,520 served by Fruitridge. He testified that the management salary question was explored in detail in the Elk Grove proceeding.

Stockton testified that one of his responsibilities is to communicate to Cook those concerns which he may have about the financial operations of the company. In response to the statement by staff that it did not observe Cook's presence at Fruitridge during its visit, Cook stated he was on vacation during most of June, the period when the staff was present at the company offices.

Staff has recommended that approximately \$3,000 be allowed for Cook's services. This amount is in lieu of two board of directors' fees. Cook is not an accountant, but retains one to do the utility's tax work. The computer Cook mentioned will cost \$10,000, exclusive of software. Cook currently maintains a law practice, with an office and secretary, although he stated he will soon retire from the practice and spend all of his time managing family affairs except for the representation of a number of long-standing clients.

Cook testified he typically spends 12 to 14 hours per week working for Fruitridge, most of it at his office, part at Fruitridge. He does not maintain a separate office at the Fruitridge location, but uses a conference room formerly used by the board of directors when Fruitridge was a corporation.

Exhibit 5 is a statement of employee responsibilities. It lists 37 functions performed by the General Manager, including both Cook's and Stockton's functions, under that title. Stockton stated that both he and Cook perform a number of these functions, such as screening new applicants for employment, negotiating compensation for new employees, dismissing employees for reasonable cause, and determining types and levels of employee benefits. However, Cook has the responsibility for final approval of many of

these functions. Furthermore, Stockton testified he reports to Cook, and that Cook is responsible for employing him. Cook, in turn, is hired by the trust.

Staff witness Tayeb Mogri testified that no reference was made to Cook in Fruitridge's 1986 annual report. But Cook's role as financial manager only came into existence about the first of 1987; and the company operated as a corporation during 1986. Mogri noted that the office manager takes care of the daily ledger payments and receipts, and maintains the utility's books. Mogri believes that Cook functions only as a trustee's representative, guiding the company from time to time. He stated that in previous years there were many plant additions requiring financial management, but believes there is no particular benefit to the company from Cook's present service.

Exhibit 1 is Fruitridge's Report on the Results of Operations and Revenue Requirements. Sponsored by the company's consultant, John Reader, it states that employee and office salaries have been estimated for the test years by applying the latest inflation factors. It notes that Fruitridge experienced difficulty in obtaining reliable management personnel in 1985 and during the first half of 1986. A new manager was hired in 1985, but dismissed early in 1986. The retired manager returned on a part-time basis, but during a portion of 1985 and 1986, the company had no manager. Thus, management salaries recorded in annual reports for Fruitridge during the 5-year period 1982 to 1986 were, respectively, \$42,285, \$42,673, \$48,205, \$39,989, and \$20,296.

After consideration, we believe that the amounts requested by Fruitridge for management salaries are proper. The evidence demonstrates that the salaries were appropriate before the company became a trust, that a comparable management salary has been allowed by the Commission for Elk Grove, and that Robert Cook performs a reasonably useful function with Fruitridge. Cook's role as financial/general manager is one which may fluctuate in

intensity, one which may be passive and supervisorial much of the time, as with the approval of the hiring and dismissing of employees. Cook's function even includes the hiring of Stockton. The value of such service may be difficult to quantify. We are aided here by past allowances for Fruitridge's management personnel, as well as by consideration of our allowance in the Elk Grove proceeding.

Results of Operations

Our adopted summaries of earnings for 1987, 1988, and 1989 are set forth in the following tables:

TABLE B
(Page 1)

FRUITRIDGE VISTA WATER COMPANY

SUMMARY OF EARNINGS
(Dollars in thousands)
TEST YEAR 1987

Item	At Present Rates			
	Applicant	Staff	Adopted	Authorized Rates
Operating Revenues	579.3	579.6	579.6	672.2
Undercollection	0.0	0.0	0.0	0.0
Total Revenues	579.3	579.6	579.6	672.2
Operations & Maint.				
Purchased Power	99.8	98.4	98.4	98.4
Other (Chemicals)	3.9	3.9	3.9	3.9
Payroll (Labor)	119.2	119.2	119.2	119.2
Materials & Supplies	18.5	18.5	18.5	18.5
Contract Work	13.7	9.0	9.0	9.0
Transportation	7.1	7.1	7.1	7.1
Other Plant Maint.	4.7	4.7	4.7	4.7
Total O&M Expenses	266.9	260.8	260.8	260.8
Administrative & General				
Office Salaries	39.5	39.5	39.5	39.5
Management Salaries	46.2	27.1	46.2	46.2
Employee Pension & Ben.	10.6	10.6	10.6	10.6
Uncollectibles	1.0	1.0	1.0	1.0
Office Services & Rentals	4.7	4.7	4.7	4.7
Office Supplies & Expense	17.0	17.0	17.0	17.0
Professional Services	14.7	14.7	14.7	14.7
Insurance	58.3	58.3	58.3	58.3
Regulatory Expense	3.8	4.1	4.1	4.1
General Expense	12.6	7.0	7.0	7.0
Total A&G Expenses	208.4	184.0	203.1	203.1
Expenses Capitalized	(3.0)	(3.0)	(3.0)	(3.0)
Taxes & Deprec.				
Ad Valorem Taxes	13.8	13.8	13.8	13.8
County Franchise Tax	2.3	2.3	2.3	2.7
Payroll Taxes	14.5	12.9	12.9	12.9
Depreciation Expense	66.9	66.9	66.9	66.9
Calif. Income Tax	0.2	1.8	0.3	8.5
Federal Income Tax	0.0	0.0	0.0	11.5
Total Taxes & Depreciation	97.7	97.7	96.2	116.3
Total Expenses	570.0	539.5	557.1	577.2
Net Revenues	9.3	40.1	22.5	95.0
Rate Base	906.2	903.4	905.3	905.3
Rate of Return	1.02%	4.44%	2.49%	10.50%

TABLE B
(Page 2)

FRUITRIDGE VISTA WATER COMPANY

SUMMARY OF EARNINGS
(Dollars in thousands)
TEST YEAR 1988

Item	At Present Rates			
	Applicant	Staff	Adopted	Authorized Rates
Operating Revenues	580.4	580.6	580.6	696.6
Undercollection	0.0	0.0	0.0	37.7
Total Revenues	580.4	580.6	580.6	734.3
Operations & Maint.				
Purchased Power	99.9	98.5	98.5	98.5
Other (Chemicals)	4.1	4.1	4.1	4.1
Payroll (Labor)	124.3	124.3	124.3	124.3
Materials & Supplies	19.3	19.3	19.3	19.3
Contract Work	14.2	9.4	9.4	9.4
Transportation	7.4	7.4	7.4	7.4
Other Plant Maint.	4.9	4.9	4.9	4.9
Total O&M Expenses	274.1	267.8	267.8	267.8
Administrative & General				
Office Salaries	41.2	41.2	41.2	41.2
Management Salaries	48.2	28.0	48.2	48.2
Employee Pension & Ben.	11.1	11.1	11.1	11.1
Uncollectibles	1.0	1.0	1.0	1.0
Office Services & Rentals	4.9	4.9	4.9	4.9
Office Supplies & Expense	17.5	17.5	17.5	17.5
Professional Services	15.3	15.3	15.3	15.3
Insurance	60.7	60.7	60.7	60.7
Regulatory Expense	3.8	4.2	4.2	4.2
General Expense	13.1	7.2	7.2	7.2
Total A&G Expenses	216.7	190.9	211.1	211.1
Expenses Capitalized	(3.0)	(3.0)	(3.0)	(3.0)
Taxes & Depreciation				
Ad Valorem Taxes	14.5	14.5	14.5	14.5
County Franchise Tax	2.3	2.3	2.3	2.7
Payroll Taxes	15.1	13.4	13.4	13.4
Depreciation Expense	69.4	69.4	69.4	69.4
Calif. Income Tax	0.2	0.2	0.3	8.9
Federal Income Tax	0.0	0.0	0.0	12.0
Total Taxes & Deprec.	101.5	99.8	99.9	121.0
Total Expenses	589.2	555.5	575.8	596.8
Net Revenues	(8.8)	25.1	4.8	99.8
Rate Base	951.0	948.2	950.1	950.1
Rate of Return	(0.93%)	2.64%	0.50%	10.50%

TABLE B
(Page 3)

FRUITRIDGE VISTA WATER COMPANY

SUMMARY OF EARNINGS
(Dollars in thousands)
TEST YEAR 1989

Item	At Present Rates			
	Applicant	Staff	Adopted	Authorized Rates
Operating Revenues	581.3	581.4	581.4	717.8
Undercollection	0.0	0.0	0.0	18.8
Total Revenues	581.3	581.4	581.4	736.6
Operations & Maint.				
Purchased Power	100.0	98.6	98.6	98.6
Other (Chemicals)	4.2	4.2	4.2	4.2
Payroll (Labor)	129.9	129.9	129.9	129.9
Materials & Supplies	20.0	20.0	20.0	20.0
Contract Work	14.8	9.7	9.7	9.7
Transportation	7.7	7.7	7.7	7.7
Other Plant Maint.	5.1	5.1	5.1	5.1
Total O&M Expenses	281.6	275.1	275.1	275.1
Administrative & General				
Office Salaries	43.0	43.0	43.0	43.0
Management Salaries	50.4	29.3	50.4	50.4
Employee Pension & Ben.	11.6	11.6	11.6	11.6
Uncollectibles	1.0	1.0	1.0	1.0
Office Services & Rentals	5.0	5.0	5.0	5.0
Office Supplies & Expense	17.9	17.9	17.9	17.9
Professional Services	16.0	16.0	16.0	16.0
Insurance	63.0	63.0	63.0	63.0
Regulatory Expense	3.8	4.2	4.2	4.2
General Expense	13.6	7.3	7.3	7.3
Total A&G Expenses	225.2	198.3	219.4	219.4
Expenses Capitalized	(3.0)	(3.0)	(3.0)	(3.0)
Taxes & Depreciation				
Ad Valorem Taxes	15.2	15.2	15.2	15.2
County Franchise Tax	2.3	2.3	2.3	2.9
Payroll Taxes	15.7	13.5	13.5	13.5
Depreciation Expense	71.4	71.4	71.4	71.4
Calif. Income Tax	0.2	0.2	0.3	9.2
Federal Income Tax	0.0	0.0	0.0	12.0
Total Taxes & Deprec.	104.8	102.6	102.7	124.2
Total Expenses	608.6	573.0	594.2	615.7
Net Revenues	(27.3)	8.4	(12.8)	102.1
Rate Base	974.3	971.4	973.4	973.4
Rate of Return	(2.80%)	0.87%	(1.31%)	10.50%

Our adopted summaries of earnings will result in the applicant being granted increased revenues of \$116,000 (19.98%) over revenues at present rates in 1988, and \$20,400 (3.51%) additional revenue in 1989 over 1988 authorized rates.

Customer Service

The staff conducted a field inspection of the utility's facilities on June 23, 1987 and found that plant, service, and water pressure were satisfactory and in compliance with Commission General Order No. 103.

Eight letters of protest were received from customers. All were opposed to a rate increase of greater than 20%; two also complained about low pressure, and three also complained about water quality.

Staff observes that the problem of lower pressure in portions of the service area is not yet resolved. The utility is investigating further to see what system improvements need to be made to provide the quantity of water needed by the customers at adequate pressures.

A review of the file of the Commission's Consumer Affairs Branch reveals that four informal complaints were filed in 1986. All four complaints have been resolved.

Staff believes that overall service is satisfactory. Staff has confirmed with the State Health Department that the utility meets all health standards. There are no outstanding Commission orders requiring improvements.

Rate Design

Staff recommends that any change in revenues be allocated to be recovered with approximately equal percentage increases applied to flat and meter rate customers for each of the test years with the exception of the increase for private fire protection, which it believes should be increased as proposed by utility. (An increase of 50 cents per month, per inch of pipe diameter, from \$2.50 to \$3.00, to apply through 1989).

The Commission issued D.86-05-064 on May 28, 1986 as a result of I.84-11-041, Order Instituting Investigation (Rulemaking) into Water Rate Design Policy, filed November 21, 1984. The decision specifies among other things, that lifeline rates be eliminated.

Staff concurs with the utility and recommends that the lifeline rate be eliminated as required by D.86-05-064 if it is possible to do so without burdening any group of customers with a percentage increase significantly greater than the overall system average. The staff agrees with the utility's proposed single block commodity rate for metered customers.

The staff/utility recommendations appear to be reasonable and will be adopted.

Appendix A sets forth the adopted rates for 1988 and 1989. Appendix B compares present rates with those authorized here. Appendix C shows the adopted quantities used for rate calculations.

Water Conservation

Fruitridge has not submitted a water conservation plan for staff review. However, the utility has informed staff that it participates in the Greater Sacramento Area water conservation measures. Staff recommends that Fruitridge furnish a water conservation plan because of the very dry year, at least up to the date of hearing, and expected water shortages. We concur with staff, and will require Fruitridge to submit a water conservation plan for staff review.

In accordance with Public Utilities Code Section 311, as amended by Assembly Bill 3383, the ALJ's proposed decision was mailed to appearances on January 11, 1988. Comments were received from the staff stating it would have reached a different conclusion on some issues, but that the ALJ reached a fair resolution of the contested issues. Nothing in the comments persuades us that the proposed decision should be changed.

Findings of Fact

1. Fruitridge's rates were last adjusted pursuant to Resolution W-3083 dated March 2, 1983.
2. By D.86-12-065 Fruitridge, a corporation, was authorized to transfer its water utility system to the D. J. Nelson Family Trust.
3. Fruitridge initially requested authority to increase water rates by 20.01%, 3.77%, and 3.10% in 1987, 1988, and 1989, respectively, amounting to increases in annual revenues of \$115,910, \$26,220, and \$22,370.
4. The requested increases shown above were based upon a requested rate of return of 11.0%. Fruitridge has reduced its requested rate of return to 10.75%.
5. Authorization of a rate of return of 10.5% will give proper consideration to Fruitridge's satisfactory service to its customers, and to the fact that the utility is a 100% equity financed company.
6. Allowance of the management salaries requested by Fruitridge will recognize that Robert Cook's role as a financial manager is necessary to the company, and is proper in these circumstances.
7. Amortization of the electric power balancing account over a period of 18 months will improve Fruitridge's cash flow without causing any undue hardship to the company's customers..
8. The amounts of operating revenues, operating expenses, and rate base, and each element thereof shown in our adopted results of operations represent a fair and reasonable determination of Fruitridge's revenue requirements for 1987, 1988, and 1989.
9. The staff-recommended rate design is reasonable and should be adopted.
10. Fruitridge should be directed to submit a water conservation plan to the Commission staff.

11. The rate increases in 1988 and 1989 authorized by this decision are justified and reasonable; present rates and charges insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusions of Law

1. Fruitridge should be authorized to increase its present rates and charges to the levels found reasonable by this decision.
2. The application should be granted to the extent set forth in this decision.
3. In view of the need for rate relief, the effective date of this decision should be today.

ORDER

IT IS ORDERED that:

1. D. J. Nelson Family Trust, doing business as Fruitridge Vista Water Company (Fruitridge) is authorized to file the revised rate schedules in attached Appendix A five days after today. The filing shall comply with General Order 96-A. The revised schedules shall only apply to service rendered on and after their effective date.

2. Fruitridge shall file a water conservation plan, acceptable to the Commission staff, within 60 days after today.


This order is effective today.

Dated FEB 10 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
Commissioners

Commissioner John B. Ohanian
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Winkler, Executive Director

AB

APPENDIX A

Page 1

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

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.

RATESQuantity RatesPer Meter Per Month
1988 1989

For all water delivered,		(T)	
Per 100 cu.ft.	\$0.325	(I)	\$0.335 (I)

Service Charge

For 5/8 x 3/4-inch meter	\$ 7.30	(I)	\$ 7.55	(I)
For 3/4-inch meter	8.00	(I)	8.25	(I)
For 1-inch meter	10.75	(I)	11.00	(I)
For 1-1/2-inch meter	14.50	(I)	14.90	(I)
For 2-inch meter	19.40	(I)	20.00	(I)
For 3-inch meter	36.50	(I)	37.50	(I)
For 4-inch meter	49.50	(I)	51.00	(I)
For 6-inch meter	81.50	(I)	84.00	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

Note: The Quantity Rate is subject to a surcharge of \$0.025 (N)
per 100 cu.ft. for 18 months after the effective date (N)
of this schedule for the amortization of undercollec- (N)
tion of balancing account for purchased power. (N)

APPENDIX A

Page 2

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

Schedule No. 2

FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

(T)

TERRITORY

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

RATES

		Per Service Connection	
		Per Month	
		1988	1989
1.	For a single-family residential unit, including premises not exceeding 10,000 sq. ft. in area	\$ 8.25 (I)	\$ 8.50 (I)
a.	For each additional single-family residential unit on the same premises and served from the same service connection	\$ 5.30 (I)	\$ 5.50 (I)
b.	For each 100 sq. ft. of premises in excess of 10,000 sq. ft.	\$ 0.075 (I)	\$ 0.08 (I)
2.	For each automobile service station, including a car-wash rack, where service connection is not larger than one inch in diameter	\$17.50 (I)	\$18.20 (I)

Note: The Flat Rates are subject to a surcharge of \$0.50 per (N)
 per service connection per month for 18 months after the (N)
 effective date of this schedule for the amortization of (N)
 undercollection of balancing account for purchased power. (N)

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 served under Schedule No. 1, Metered Service.

APPENDIX A
Page 3

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Unit, Bowling Green Units, and immediately adjoining territory, all located in Sacramento County adjacent to the southerly limits of the City of Sacramento.

RATE

Per Month

For each inch of diameter of service connection \$3.00 (I)

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 cost paid by the applicant. Such payment shall not be subject to refund.
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 will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the sytem.

APPENDIX A
Page 4

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

Schedule No. 5

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction water.

TERRITORY

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

RATES

<u>Quantity Rate</u>	<u>Per Meter Per Month</u>	
	<u>1988</u>	<u>1989</u>
For all water delivered, per 100 cu.ft.	\$0.325 (I)	\$0.335 (I)
<u>Minimum Charge</u>	<u>Per Day</u>	<u>Per Day</u>
For all sizes of meters	\$6.00 (I)	\$6.00

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

Special Conditions

1. Applicant for metered construction service shall deposit with the utility a sum equal to 120% of the cost of the meter. This deposit is refundable upon return of the meter to the utility in good working condition.
2. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

(End of Appendix A)

APPENDIX B

Page 1

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

Comparisons of typical bills for metered cutomers of various usage levels and average level at present and authorized rates for the year 1988.

METERED SERVICE
(2-inch meters)

Schedule No. 1

Monthly Usage Ccf	At Present Rates	At Authorized Rates	Percent Increase
0	\$ 14.30	\$ 19.40	35.7%
3	14.90	20.38	36.8
5	15.48	21.03	35.9
10	16.93	22.65	33.8
20	19.83	25.90	30.6
30	22.73	29.15	28.2
50	28.53	35.65	25.0
100	43.03	51.90	20.6
150	57.53	68.15	18.5
165 (Average)	61.88	73.03	18.0
200	72.03	84.40	17.2
250	86.53	100.65	16.3
300	101.03	116.9	15.7
400	130.03	149.4	14.9
500	159.03	181.9	14.4

APPENDIX B

Page 2

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

A comparison of monthly Flat Rate customer bills at present and authorized rates for 1988 test year is shown below:

FLAT RATE SERVICE

Schedule Nos. 2, 4, 5

<u>Flat Rate Customers</u>	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
For a single-family residential unit including premises not exceeding 10,000 sq.ft.....	\$ 6.85	\$ 8.25	\$ 1.40	20.4%
For each additional single-family residential unit on the premises and served from the same service connection	4.40	5.30	0.90	20.5%
For each 100 sq.ft. of premises in excess of 10,000 sq.ft.	0.06	0.075	0.015	25.0%
For each automobile service station, including a car wash rack, where service connection is not larger than one inch in diameter	14.50	17.50	3.00	20.7%
Private Fire Protection Service per inch diameter	2.50	3.00	0.50	20.0%
Metered Construction Service				
Minimum Charge (per day)...	5.00	6.00	1.00	20.0%
Quantity Rate, per 100 cu.ft.	0.29	0.325	0.035	12.1%

(End of Appendix B)

APPENDIX C

Page 1

FRUITRIDGE VISTA WATER COMPANY
Sacramento CountyADOPTED QUANTITIESGeneral

Net-to-Gross Multiplier:	1.478
Federal Tax Rate:	25%
State Tax Rate:	9.3%
Local Franchise Tax:	0.3944%
Uncollectible Rate:	0.14%

<u>Payroll</u> (000)	<u>1987</u>	<u>1988</u>	<u>1989</u>
Employee Labor	\$119.2	\$124.3	\$129.9
Management Salaries	46.2	48.2	50.4
Office Salaries	39.5	41.2	43.0
Total	\$204.9	\$213.7	\$223.3
<u>Payroll Taxes</u> (000)	\$12.9	\$13.4	\$13.5
<u>Ad Valorem Taxes</u>			
Assessed Value (000)	\$1,293.7	\$1,358.5	\$1,426.0
Effective Tax Rate	1.0659	1.0659	1.0659
Ad Valorem Taxes (000)	\$13.8	\$14.5	\$15.2
<u>Water Production</u> (In Thousand Ccf)	2,090	2,092	2,094

APPENDIX C
Page 2

FRUITRIDGE VISTA WATER COMPANY
Sacramento County

ADOPTED QUANTITIES

Purchased Power (Electric)

Sacramento Municipal Utility District	KWH	Amount (in 1000)
Schedule 47		
Rates Effective March 1, 1987		
Winter Billing Months - Nov thru April		
Energy Charge		
Under 8750 Kwh	131,919	\$ 8.82
Over 8750 Kwh	138,753	5.14
Demand Charge Over 30 Kwh/month	497	2.53
Customer Charge		2.33
Summer Billing Months - May thru Oct		
Energy Charge		
Under 8,750 Kwh	318,271	24.52
Over 8,750 Kwh	313,556	11.62
Demand Charge Over 30 Kwh/month	891	5.61
Customer Charge		2.33
Schedule 27		
Rates Effective March 1, 1987		
Winter Billing Months - Nov thru April		
Energy Charge	237,167	14.12
Customer Charge		0.29
Summer Billing Months - May thru Oct		
Energy Charge	308,913	20.77
Customer Charge		0.29

APPENDIX C

Page 3

FRUITRIDGE VISTA WATER COMPANY
Sacramento CountyADOPTED QUANTITIES
WATER SALES FOR RATE DESIGN

<u>Meter Size</u>		<u>Number of Metered Services</u>	
<u>Schedule - 1</u>		<u>1988</u>	<u>1989</u>
5/8 x 3/4		0	0
3/4		5	5
1		64	64
1-1/2		62	62
2		107	107
3		21	21
4		5	5
6		3	3
Total Metered Customers		267	267
Metered Water Sales		506,500 Ccf	506,500 Ccf
<u>Flat Rate</u>		<u>Number of Services</u>	
<u>Schedule - 2</u>		<u>1988</u>	<u>1989</u>
<u>Residential</u>			
Single Family		3867	3870
Duplex		160	160
Triplex		4	4
Fourplex		61	61
5-Units		3	3
6-Units		1	1
7-Units		2	2
8-Units		1	1
Various		102	102
S. West Tract		28	28
Service Station		8	8
Total		4237	4240
Private Fire		20	20
Public Fire		313	313
Total Flat Rate Customers		4570	4573
Total Services Including Fire		4837	4840

APPENDIX C
(Page 4)

FRUITRIDGE VISTA WATER COMPANY

INCOME TAXES

Item	TEST YEAR	
	1987	
	Present	Authorized
	Rates	Rates
(Dollars in Thousands)		
Operating Revenue	579.6	672.2
Expenses:		
Operations & Maintenance	260.8	260.8
Admin. and General	203.1	203.1
Less Exp. Capitalized	(3.0)	(3.0)
Deprec. for CCFT	90.5	90.5
Taxes Other Than Income	<u>28.9</u>	<u>29.5</u>
Total Expenses	580.3	580.9
CCFT Taxable Income	(0.7)	91.3
CCFT	0.3	8.5
Add'l Depr. for FIT	16.9	16.9
FIT Taxable Income	(17.9)	65.9
FIT	<u>0.0</u>	<u>11.5</u>
Total Income Taxes	0.3	20.0

(Negative)

APPENDIX C
(Page 5)

FRUITRIDGE VISTA WATER COMPANY

INCOME TAXES

Item	TEST YEAR	
	1988	
	Present	Authorized
	Rates	Rates
(Dollars in Thousands)		
Operating Revenue	580.6	696.6
Expenses:		
Operations & Maintenance	267.8	267.8
Admin. and General	211.1	211.1
Less Exp. Capitalized	(3.0)	(3.0)
Deprec. for CCFT	94.0	94.0
Taxes Other Than Income	<u>30.2</u>	<u>30.6</u>
Total Expenses	600.1	600.5
CCFT Taxable Income	(19.5)	96.1
<u>CCFT</u>	0.3	8.9
Add'l Depr. for FIT	19.3	19.3
FIT Taxable Income	(39.1)	67.9
FIT	<u>0.0</u>	<u>12.0</u>
Total Income Taxes	0.3	20.9
(Negative)		

APPENDIX C
(Page 6)

FRUITRIDGE VISTA WATER COMPANY

INCOME TAXES

Item	TEST YEAR	
	1989	
	Present	Authorized
	Rates	Rates
(Dollars in Thousands)		
Operating Revenue	581.4	717.8
Expenses:		
Operations & Maintenance	275.1	275.1
Admin. and General	219.3	219.3
Less Exp. Capitalized	(3.0)	(3.0)
Deprec. for CCFT	96.1	96.1
Taxes Other Than Income	<u>31.0</u>	<u>31.6</u>
Total Expenses	618.5	619.1
CCFT Taxable Income	(37.1)	98.7
CCFT	0.3	9.2
Add'l Depr. for FIT	21.5	21.5
FIT Taxable Income	(58.6)	68.0
FIT	<u>0.0</u>	<u>12.0</u>
Total Income Taxes	0.3	21.2

(Negative)

(End of Appendix C)

Fruitridge amended its requested rate of return to 10.75% during the hearing.

Fruitridge also requests the recovery of \$56,470 undercollection in its electric power balancing account, with an average increase of 75 cents per month from residential flat rate customers, and 3.7 cents per 100 cubic feet of water sold to metered customers.

The utility's last general rate increase was authorized by Resolution W-3083 dated March 2, 1983, where Fruitridge was granted revenue increases sufficient to earn a rate of return of 11.5%.

The following table is a comparison of the rate of return estimates by the Commission's Advisory and Compliance Division Staff (staff) and Fruitridge for each test year at present and proposed rates:

Rates of Return

Item	Staff			Utility		
	1987	1988	1989	1987	1988	1989
Rate of Return Present Rates	4.4%	2.6%	0.9%	1.0%	-0.9%	-2.8%
Rate of Return Proposed Rates	12.9%	12.9%	13.0%	11.0%	11.0%	11.0%

The following three Summary of Earnings tables are derived from Fruitridge's Exhibit 3: