

*Process*

*# 55*

*11-3-82*

Decision 82 11 024 November 3, 1982

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Madera Ranchos Water )  
Company's Draft Advice Letter Filed ) Application 82-02-39  
September 10, 1981 to Increase Rates ) (Filed February 18, 1982)  
by \$51,703 or about 114.4 Percent. )

Claudia Stanley, and Michael F. Willoughby,  
Attorney at Law, for Madera Ranchos  
Water Company, applicant.  
Jeff Thomas, for the Commission staff.

**O P I N I O N**

**I. Procedural Background**

On September 10, 1981 Francis Ferraro, dba Madera Ranchos Water Company (Madera Ranchos), filed a draft advice letter seeking authority to increase rates and charges for water service by \$51,703 (114.4%). Madera Ranchos contends that its request for rate relief was actually submitted to the Commission as early as July 1981. The draft advice letter was initially handled by the Hydraulic Branch of the Utilities Division (staff) under the advice letter procedures of General Order (G.O.) 96-A, without the necessity of hearings. However, on February 18, 1982, the draft advice letter was converted by staff to Application (A.) 82-02-39. The need to determine the status of Madera Ranchos's compliance with previous Commission orders as well as customer protests prompted the conversion.

Public hearings were held in A.82-02-39 in San Francisco, California, on July 6, 7, and 8, 1982. Claudia Stanley presented

evidence on behalf of Madera Ranchos. John A. Yager and Arthur D. Choy presented evidence on behalf of the staff.

At the hearings and over the objection of staff counsel, Madera Ranchos introduced completely updated data and raised its requested rate increase to approximately \$62,290 (130.8%) for 1982 and requested an additional \$4,730 (4.35%) for 1983. Madera Ranchos serves 490 flat rate customers and one metered customer. Rates currently in effect generate revenues of \$47,620. Staff subsequently analyzed the 1982 data together with additional data supplied by Madera Ranchos after the hearings. Staff's late-filed exhibit presented its analysis.

Underlying most of the issues raised by the application is the Commission's finding in Decision (D.) 91425, dated March 18, 1980, that Francis Ferraro, sole owner of Madera Ranchos, had collected charges for service connections in violation of General Order 103. The Commission ordered Ferraro to refund all service connection charges collected after January 1, 1977. The refunds were to be made immediately and in full to individuals who actually occupied the premises. Ferraro was ordered to enter into main extension-type contracts for repayment of service charges to builders, contractors, or other persons who did not actually occupy the premises. Each service connection repayment contract was to provide for payment of 22% of gross revenues until the service charge was repaid. Staff recommends that any rate relief be conditioned upon full compliance by Madera Ranchos with outstanding Commission decisions.

## II. Issues Presented

The staff's late-filed exhibit compares Madera Ranchos's and staff's determinations of operating revenues, operating expenses, and rate base for test year 1982 using rates proposed by Madera Ranchos. The following chart lists the comparable figures presented by Madera Ranchos and staff:

Comparison - Utility and Hydraulic Branch - Summary of Earnings

## Test Year 1982 Proposed Rates

<u>Item</u>	<u>Utility Estimates</u>	<u>Staff Estimates</u>	<u>At Issue</u> <u>(Utility</u> <u>Exceeds</u> <u>Staff)</u>
<u>Operating Revenues</u>			
Metered	\$ 260	\$ 260	
Flat Rate	109,200	109,200	
Private Fire Protection	-	-	
Other Revenues	450	450	
Total Operating Revenues	109,910	109,910	
<u>Operating Expenses</u>			
Purchased Power	25,030	25,030	
Payroll	19,430	19,430	
Management Salary	6,720	6,720	
Accounting, Legal, etc.	8,900	6,220	\$2,680
Contract Work	2,440	2,440	
Other O & M Expenses	13,330	13,330	
Uncollectibles @.01 x OR	1,090	1,090	
Total Operating Expenses	76,940	74,260	
Depreciation	2,030	2,030	
Property Taxes	940	940	
Payroll Taxes	2,160	2,160	
Total Deductions for Taxes	82,070	79,390	
Income Taxes	17,880	19,350*	
Total Deductions	99,950	98,740	
Net Operating Revenues	9,960	11,170	
<u>Rate Base</u>			
Average Gross Plant	350,310	350,310	
Avg. Depreciation Reserve	(129,180)	(135,270)	6,090
Average Advances	(5,480)	(7,300)	1,820
Average Contributions	(154,650)	(148,570)	(6,080)
Materials and Supplies	1,000	1,000	
Working Cash	1,230	1,120*	
Adjustments		(27,730)	27,730 ✓
Average Depreciated Rate Base	63,230	33,560	

\* Utility Method O.K.

(Red Figure)

There are no issues involving operating revenues. The only operating expenses in controversy involve legal expenses.

With respect to the rate base determination, "average depreciation reserve," "contributions," "advances," and "adjustments" are the only matters at issue. Actually, the different estimates for average depreciation reserve and contributions are not significant since the differences between staff's and Madera Ranchos's calculations of these two items offset each other and do not affect the rate base determination. The differences are caused by Madera Ranchos's inclusion in average plant of a 30 HP pump and motor, installed in 1960 and retired in 1974, and of the replacement 30 HP pump and motor, installed in 1974 and removed in 1977. Madera Ranchos's inclusion of these pumps has no effect on average plant since when plant is retired its value is removed from gross plant as well as from depreciation reserve. The inclusion or deletion of these pumps in the appraisal has no net effect on rate base since they represent plant installed by Madera Ranchos's predecessor, Mid-Way Village, which largely represents contributed plant. Madera Ranchos's decrease of \$6,090 in depreciation reserve is offset, within the accuracy of rounding off, by the increase of \$6,080 in contributions. Since staff did not ever include the pumps in average plant, staff did not subtract their value from depreciation reserve nor add their value to contributions upon their retirement. Therefore, staff's combined figure for depreciation reserve and contributions is the same as Madera Ranchos's.

In sum the issues relating to test year 1982 results of operations and rate base in this proceeding are "legal expenses," "advances," and "adjustments to rate base." Calculations of advances and rate base adjustments involve the same issues of determining how much it actually cost Madera Ranchos to make service connections, and further determining whether Madera Ranchos collected amounts above cost and, if so, how to treat these excess amounts.

A. Legal Expenses

Staff contends that ratepayers should not be required to pay legal costs incurred by Madera Ranchos in defending itself in those cases where Madera Ranchos was found by the Commission to have acted in an illegal and/or improper manner. Staff notes that there have been three decisions in which the Commission has found that Madera Ranchos illegally collected over \$91,000 in connection charges for 315 services, held about \$3,600 of deposits in violation of its filed tariffs, and accepted over \$24,000 worth of main extensions without entering into main extension contracts. (D.91425 issued March 18, 1980 in A.58607 and Case (C.) 10682; D.93431 issued August 18, 1981 in A.58607 et al.; and D.82-04-011 issued April 6, 1982 in C.10869 et al.)

In staff's view Madera Ranchos's only reimbursable legal expenses are for the rate increase application and related hearings, for the hearing where the Commission found that a moratorium on additional service connections was necessary until applicant developed additional sources of water, and for applicant's Petition for Clarification and Modification of D.93431 because D.93431 and D.91425 in A.58607 are inconsistent in the method of refunding service connection charges assessed against contractors. Staff's calculation of allowable legal expenses totals \$1,600 - \$2,680 less than that requested by Madera Ranchos.

The attorney for Madera Ranchos filed a Declaration in which he addressed the expenses incurred and the hours spent with respect to the three matters involving Madera Ranchos which staff recognizes as appropriate for ratepayer reimbursement of legal expenses. The declaration identifies 104 hours spent in legal work which staff acknowledges is appropriate for inclusion in expenses for ratemaking purposes. Madera Ranchos argues that staff has ignored all reimbursable expenses

incurred by counsel in these efforts. Madera Ranchos contends that they should also be included as legal expense for the purposes of the rate increase. By staff's formula, the amortized amount to be included for ratemaking purposes is calculated as follows:

$$\frac{104 \text{ hours}}{3 \text{ years}} \times \$75.00/\text{hour} = \$2,600.00$$

Madera Ranchos also suggests that some efforts to obtain compliance with earlier Commission orders have been necessary only because of the intransigence of certain customers who refuse to sign main extension contracts, as well as because of overbearing staff review and criticism which has made counsel's role more extensive. Madera Ranchos feels that these additional efforts are appropriate for inclusion as expenses for ratemaking purposes. The time spent in these efforts amounts to an additional eight hours of counsel's time.

We will allow as recoverable those legal expenses associated with Madera Ranchos's general rate case, its service connection moratorium case, and its petition for clarification and modification. We accept counsel's declaration that he spent 104 hours to prepare and conduct these matters. Accordingly, we will authorize recovery of \$2,600 in legal expenses.

B. "Advances" and "Adjustments to Rate Base"

The parties agree that Madera Ranchos collected \$91,729 from homeowners and contractors for 315 service connections installed from 1977 through 1979; this produces an average price of about \$300 for each service connection. Staff maintains that the service connections actually cost Madera Ranchos an average of \$186.55. It is staff's position that Madera Ranchos therefore collected an overcharge of \$113.45 for each service connection installed. Staff proposes the following method for accounting for the service connection charges:

1. The \$186.55 cost of each service charge is added into "gross plant" and into "contributions," and
2. The \$113.45 overcharge is placed into an "adjustments" account which is subtracted from Madera Ranchos's rate base.

As Madera Ranchos enters into contracts to refund the \$300 service connection charge, staff suggests that Madera Ranchos should decrease the "contributions" account by \$186.55, decrease the "adjustments" account by \$113.45, and increase the "advances" account by \$300.

In 1979, when current figures were available, staff determined that the average cost for these service connections was \$186.55. This cost determination was described in a portion of the staff exhibit in A.58607. Staff stated that the cost of installing the services should be "adjusted to the average recorded cost of \$186.55 per service connection rather than the unsupported \$300 per connection used by applicant in its appraisal." Staff explained that the cost the applicant used in the appraisal included the cost of a one-inch meter which was never installed. Staff adjusted the cost of the service connections "to reflect the actual invoice cost of material and labor paid by the utility" and arrived at the average cost of \$186.55.

It is staff's position that its determination of an average cost of each service connection of \$186.55 has been litigated subject to cross-examination in A.58607 and was accepted by Madera Ranchos. Further, staff argues that Madera Ranchos has used the staff's \$186.55 average cost calculation in this case for its determination of additions to plant and gross plant. Staff rejects Madera Ranchos's efforts in this proceeding to independently argue that the average cost of service connections in 1978 was over \$300. Staff maintains that Madera Ranchos improperly relied upon individual retail prices and inappropriately allocated vehicle, material, and labor expenses

in attempting to justify \$300 as the actual cost of each service connection.

Staff further argues that if Madera Ranchos's service connection labor cost figures were reasonable, which staff disputes, they could not be included as costs of the service connections. Time spent by Ferraro, company servicemen, and office workers on service connections cannot be included as a cost of the service connections and an addition to plant since these individuals' wages and salaries are recorded as operating expenses and paid by ratepayers. Staff explains that the labor expenses correctly included in the cost of the service connections are costs of nonemployees. For instance, Stanley testified that a plumber is involved in each service connection. Plumber's charges are an example of the type of labor expenses which staff included in arriving at staff's average cost figures for service connections. In 1979, when current figures were available, staff adjusted the cost of service connections to reflect the actual "invoice cost" of labor, as well as materials paid by Madera Ranchos. Staff therefore then claims that it was able to correctly arrive at the average cost of \$186.55.

Staff calculated the service connection overcollection, i.e. the difference between actual cost and what Madera Ranchos collected, as follows:

1. Madera Ranchos collected \$91,729 for 315 services.
2. Madera Ranchos has refunded \$9,500 for 32 of these services. ✓
3. Madera Ranchos has entered into \$9,900 worth of advance contracts for 33 of these services.
4.  $315 - (32 \text{ refunds} + 33 \text{ contracts}) = 250 \text{ services.}$
5.  $\$91,729 - (\$9,500 \text{ refunds} + \$9,900 \text{ contracts}) = \$72,329.$



6. The 250 services charged for but not refunded or under contract represent  $250 \times \$186.55 = \$46,638$  in actual plant.
7. Madera Ranchos collected and has not refunded or placed under contract \$72,329 which represents only \$46,638 worth of plant.
8. Therefore, Madera Ranchos has overcharged and not placed under contract  $\$72,329 - \$46,638 = \$25,691$ .

It is staff's position that the \$25,690 in overcharges must be deducted from rate base. Staff suggests that this rate base reduction may be accomplished by subtracting those funds from Madera Ranchos's working cash allowance.

Staff claims that the \$25,690 in overcharges for service connections are funds supplied by subscribers (either directly or through their contractors). Those funds have been available for use by Madera Ranchos, and thus Madera Ranchos has been required to supply \$25,690 less of its own funds. Therefore, staff argues that Madera Ranchos should receive a return on \$25,690 less than it would have received without the overcharges.

Subtracting from working cash requirement the \$25,690 supplied to Madera Ranchos by noninvestors is just one way of removing the funds from rate base. In staff's late-filed exhibit, the funds are placed in an adjustments account and removed directly from rate base. In this case Madera Ranchos and staff agree that Madera Ranchos has an average gross plant of \$350,310. However, Madera Ranchos did not invest the full amount collected for service connections in supplying the service connections. There was a \$25,690 overcharge which Madera Ranchos and staff properly did not add to rate base. Madera Ranchos and staff subtract about the same amounts for

depreciation, advances, and contributions and add about the same amount for working capital to arrive at a net average depreciated rate base of about \$60,000 before making any adjustment for the \$25,690 overcharge. In staff's view, Madera Ranchos invested a net amount of about \$60,000 on the one hand while collecting \$25,690 above and beyond rates from noninvestors on the other hand. Staff claims that Madera Ranchos's net investment is thus \$60,000 minus \$25,690, or about \$34,000 which represents average depreciated rate base on which Madera Ranchos should receive a return from ratepayers. If ratepayers are forced to pay a return on the full \$60,000, staff argues that ratepayers will be paying a return on capital supplied not only by Madera Ranchos but by some of the ratepayers themselves.

Madera Ranchos responds that it has never accepted staff's calculation of the cost of each service connection. By letter of May 15, 1980, Madera Ranchos stated that the cost of each connection was higher than staff had concluded but that no records had been kept with which to breakdown the actual cost. Stanley, Madera Ranchos's office manager, produced a recapitulation of costs associated with each such connection which Madera Ranchos contends supports its position that each service connection actually cost in excess of \$300.

To the extent that it is determined that Madera Ranchos has collected sums as connection fees in excess of the cost of the installation of these connections, Madera Ranchos argues that the Commission must recognize the economic realities of Madera Ranchos's operation. Whether by use of the hybrid concept of "adjustments" or by use of a negative working cash figure, staff's proposal would permanently establish this sum in Madera Ranchos's books as a deduction from rate base. The effects are to memorialize Madera Ranchos's mistaken collection of service connection fees despite Madera Ranchos's best efforts to effect refunds. Madera Ranchos feels that staff has apparently ignored its substantial losses which considerably offset

any "overcharge" for these connections. If excess funds were in fact available to Madera Ranchos and it is acknowledged that Madera Ranchos suffered out-of-pocket losses over the same period of time, an offset should be recognized.

We disagree with Madera Ranchos, and we will adopt the staff's proposal regarding "advances" and "adjustments." We concur with staff that Madera Ranchos overcharged in the collection of connection fees. Staff's method is an appropriate and equitable approach to the treatment of those funds which were improperly advanced to Madera Ranchos through its illegal collection of connection charges from bona fide customers as well as those funds which were arguably properly advanced by contractors whom Madera Ranchos can no longer locate for return of their advances through main extension contracts. Madera Ranchos should not be rewarded either for its wrongdoing or its failure to keep adequate records. The staff method avoids the situation in which ratepayers pay a return on funds supplied by them. It is an approach which is consistent with the reasoning that it is unfair to allow Madera Ranchos a return on its gross depreciated investment without subtracting offsetting funds received from noninvestors which lower Madera Ranchos's actual investment. It is, therefore, appropriate to subtract the overcharges from Madera Ranchos's rate base until and unless they are refunded.

We further reject Madera Ranchos's argument against a negative adjustment on grounds that any alleged overcharge has more than been offset by Madera Ranchos's operating losses incurred since 1980. Irrespective of staff's claim that Madera Ranchos's out-of-pocket losses were actually much less than the overcharges collected, we agree with staff counsel's view that the proscription against retroactive ratemaking precludes the Commission from authorizing Madera Ranchos to offset overcharges by alleged operating losses

and thereby allow recovery of operating expenses which occurred prior to the test year period at issue in this proceeding.

We will adopt staff's proposed method of accounting for the service connection charges. The \$186.55 cost of each service charge will be added into "gross plant" and into "contributions." The \$113.45 overcharge is placed into an "adjustments" account which is subtracted from rate base. When Madera Ranchos actually refunds a \$300 service charge, the \$186.55 cost will be subtracted from "contributions" and the \$113.45 overcharge will be subtracted from the "adjustments" account. This method leaves \$186.55 in "gross plant" with no offsetting account since the \$186.55 then represents investment dedicated to public utility service by Madera Ranchos. When Madera Ranchos enters a \$300 service connection refund contract, the adopted method will decrease the "contributions" by the \$186.55 cost and decrease "adjustments" by the \$113.45 overcharge. "Advances" are increased by the full amount of the contract, \$300, offsetting not only the \$186.55 in "gross plant" but also the overcharge. This method is consistent with the necessity of continuing to decrease rate base by the amount of the overcharge until it is actually repaid and not just contracted to be repaid in the future.

Our adoption of staff's recommendations on "adjustments" and "advances" produces an average depreciated rate base of \$33,420. The parties, by stipulation, agreed that an 11.5% rate of return is appropriate for Madera Ranchos. We have previously adopted a figure of \$75,080 as a reasonable level of operating expenses for 1982. When depreciation and taxes are included Madera Ranchos's expenses for 1982 total \$87,320. With these figures adopted, a prospective summary of earnings can be projected for Madera Ranchos as follows:

Madera Ranchos's Summary of Earnings

<u>Item</u>	<u>Adopted</u>
<u>Operating Revenues</u>	
Metered	\$ 210
Flat Rate	90,500
Private Fire Protection	-
Other Revenues	450
Total Operating Revenues	<u>91,160</u>
<u>Operating Expenses</u>	
Purchased Power	25,030
Payroll	19,430
Management Salary	6,720
Accounting, Legal, etc.	7,220
Contract Work	2,440
Other O & M Expenses	13,330
Uncollectibles @.01 x OR	910
Total Operating Expenses	<u>75,080</u>
Depreciation	2,120
Property Taxes	940
Payroll Taxes	2,160
Total Deductions for Taxes	<u>80,300</u>
Income Taxes	7,020
Total Deductions	87,320
Net Operating Revenues	3,840
<u>Rate Base</u>	
Average Gross Plant	350,310
Avg. Depreciation Reserve	(135,270)
Average Advances	(12,400)
Average Contributions	(145,690)
Materials and Supplies	1,000
Working Cash	1,160
Adjustments	(25,690)
Average Depreciated	
Rate Base	33,420
Rate of Return	11.5%

(Red Figure)

Our adopted results of operations will provide \$91,160 in operating revenues for Madera Ranchos. Since current rates for Madera Ranchos generate revenues of \$47,620, our action today will result in about a 92% increase in operating revenues for Madera Ranchos. We note here that this Commission's usual policy is to allow only as much as a 50% rate increase in one year, with the remaining increase deferred until later years. We are deviating from this policy because Madera Ranchos's rate proceedings have been delayed, and because Madera Ranchos would operate at a significant loss if we limited its increase to 50% in the first year. The authorized rate increase will be recovered through adoption of the following rate design:

Rates

	Per Meter Per Month
Quantity Rates:	
First 300 cu.ft., per 100 cu.ft. ....	\$ 0.20
Over 300 cu.ft., per 100 cu.ft. ....	0.26
Service Charge:	
For 5/8 x 3/4-inch meter .....	6.00
For 3/4-inch meter .....	6.50
For 1-inch meter .....	11.00
For 1-1/2-inch meter .....	15.00
For 2-inch meter .....	20.00

Madera Ranchos has only one metered customer, a commercial customer with a one-inch meter.

	<u>Per Service Connection Per Month</u>	
For a single-family residence, including premises not exceeding 1/2 acre in area .....	\$14.35	
For each 100 sq.ft. of area in excess of 1/2 acre .....	0.03	
	<u>1-inch or Smaller</u>	<u>1-1/2-inch</u>
For commercial, other than residential .....	-	\$ 9.80
For each office unit or retail establishment .....	\$14.35	19.00

Madera Ranchos has 480 active flat rate customers. Finally, Madera Ranchos's tariffs shall be revised to eliminate the fire hydrant service charge according to state law.

Adoption of these rates will have the following impact upon the monthly bills of Madera Ranchos's customers:

	<u>Present Rate</u>	<u>Adopted Rate</u>	<u>Increase</u>	
			<u>\$</u>	<u>%</u>
Metered Customer	\$ 9.17	\$17.50	\$ 8.33	90.8
Basic Flat Rate	7.25	14.35	7.10	97.9
Average Flat Rate	8.17	15.73	7.56	92.5
Maximum Flat Rate	25.28	41.40	16.12	63.8

C. 1983 Step Rate Increase

In its application, amended at hearing, Madera Ranchos requests a 1983 step rate increase which would generate \$4,729 in revenues in excess of those sought by Madera Ranchos for 1982.

Staff believes that there is no reason why Madera Ranchos should be given special treatment and be allowed a 1983 step rate increase in this proceeding. In staff's view, Madera Ranchos has already received special treatment in regard to the setting of rates by test year 1982. Staff argues that it has analyzed voluminous documents presented to it for the first time at the hearings on this application. Further, it has met with Madera Ranchos after the hearings and has filed its late-filed exhibit with revised allocations based on the new data. Staff contends that Madera Ranchos is not in as bad a financial condition as it argues; much of Madera Ranchos's reported losses disappear when bookkeeping depreciation expenses are removed. Staff notes that Madera Ranchos has available to it the proper and speedy procedure of requesting an offset rate increase. Staff maintains that Madera Ranchos's problems in the past regarding its offset rate increases and delays in receiving rate increases were of its own making. The Commission declined normal consideration of Madera Ranchos's offset rate increase requests because of lack of substantial compliance with the Commission's orders in D.91425, including orders that Madera Ranchos refund the illegally collected service connection charges.



We agree with the staff position, and we will deny Madera Ranchos's request for 1983 step rate relief. The proper procedure for Madera Ranchos to follow in order to receive a 1983 rate increase is to file an advice letter under G.O. 96-A for an offset rate increase reflecting and passing through to customers specific changes in costs as provided for in Public Utilities Code Section 792.5. The changes in costs which Madera Ranchos may pass through to customers are those over which Madera Ranchos has no control. For small water companies, such as applicant, these costs are considered to include purchased power, purchased water, ad valorem taxes, and payroll. Offset proceedings are "designed to provide prompt relief" for significant cost increases. (PG&E (1976) 80 CPUC 487, 492.)

D. Compliance

Staff counsel raises several issues regarding compliance by Madera Ranchos with previous conditions and makes certain recommendations.

Before a moratorium on new services was imposed, Madera Ranchos entered into property covenants with contractors Howard and Billie Frakes and Glen and Joan Cox for "temporary" water service to two lots. Madera Ranchos collected service connection charges for these lots as allowed by G.O. 103 for temporary service. These lots contain permanent houses and should not be considered as connected for temporary service. Staff suggests that the service connection charges on both houses should be refunded to Frakes and Cox on the same basis as with other contractors; the two houses which are connected should now be considered as inside Madera Ranchos's service territory. We will adopt this recommendation.

Further, staff notes that the Frakes-Cox property covenants refer to 14 lots in the subdivision but do not contain contractual obligations regarding them. Stanley testified that Madera Ranchos has some vague understanding that service will be provided to all 14 lots. Staff feels that connecting any of the remaining 12 would be a violation of the current moratorium, and that should be made clear by Commission order. We agree with staff. The 12 lots should not be considered as inside Madera Ranchos's service territory. Temporary service outside Madera Ranchos's service territory should not be allowed even after the moratorium is lifted unless Madera Ranchos can fully serve those within its service territory and completes an appropriate filing with the Commission for expanding its service area.

Staff's final recommendation concerns alleged lack of compliance by Madera Ranchos with D.82-04-011, effective April 6, 1982. The decision ordered Madera Ranchos to reimburse Ronald A. Kratljan a total of \$2,995.65. As a result, Kratljan would be repaid his expenses in building an unnecessary main extension in reliance on utility employee's representations and would be repaid an improperly collected connection charge. The Commission allowed Madera Ranchos to "discharge this obligation by an immediate cash refund or by 36 monthly payments of \$96.66 beginning the first day of the month after the effective date of this order." The first payment was due May 1, 1982, and subsequent payments have been due the first of each month since then.

Evidence of record indicates that Madera Ranchos has not complied with D.82-04-011 orders. Staff recommends that Madera Ranchos's lack of compliance in the Kratljan matter is so clear,

serious, and easily rectifiable that any rate increase authorized should be limited to six months' duration unless Madera Ranchos is found to be in compliance at the end of the six months.

We will adopt this recommendation in a modified manner and condition today's authorization of rate increases upon Madera Ranchos's filing an advice letter with complete documentation of its compliance with D.82-04-011 or its inability to do so. If the condition is not met within six months of the effective date of this order, the authorized rate increases will be terminated by the Commission upon a finding of noncompliance with D.82-04-011.

Since today's rate increase authorization will issue 11 months after the beginning of the test year period for which Madera Ranchos seeks rate relief, it is appropriate to make this order effective immediately.

#### Findings of Fact

1. Reasonable operating expenses for Madera Ranchos during 1982 are projected to total \$75,080. When depreciation and tax expense are included, reasonable expenses for Madera Ranchos during 1982 will total \$87,320.
2. Madera Ranchos has collected sums as connection fees in excess of the actual cost of the installations; this excess sum of \$25,690 represents money contributed by noninvestors of Madera Ranchos and is not appropriately included in the calculation of Madera Ranchos's average depreciated rate base.
3. An average depreciated rate base of \$33,420 represents a reasonable determination of the investment upon which Madera Ranchos is entitled to earn a reasonable rate of return.
4. Madera Ranchos and staff have stipulated that an 11.5% rate of return is reasonable for Madera Ranchos.

5. A revenue increase of \$43,540 or 91.4% for Madera Ranchos during 1982 is reasonable.

6. Staff's proposed method of accounting for service connection charges and attendant refunds is reasonable.

7. Madera Ranchos did not demonstrate that special circumstances exist to warrant authorization of a 1983 step rate increase.

8. Frakes and Cox are entitled to refunds of their service connection charges.

9. The moratorium imposed upon new service connections by Madera Ranchos applies to the 12 lots referred to in the Frakes-Cox property covenants.

10. The rates adopted by this decision are reasonable.

Conclusions of Law

1. Madera Ranchos should be authorized to file rates consistent with this decision.

2. Such authorized rates should be contingent upon compliance by Madera Ranchos with D.82-04-011 and should be terminated if Madera Ranchos fails to demonstrate compliance or inability to do so within six months of the effective date of this order.

3. The staff's proposed method of accounting for service connection charges and any subsequent refunds should be adopted.

4. Madera Ranchos should not be authorized a 1983 step rate increase.

5. Frakes and Cox should receive refunds of service connection fees advanced to Madera Ranchos.

6. Madera Ranchos should not connect any new services to its system.

7. The rates authorized by this decision should become effective immediately.

O R D E R

IT IS ORDERED that:

1. Francis W. Ferraro, dba Madera Ranchos Water Company, is authorized to file, effective today, the revised rates adopted in the body of this decision. The filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. The rates authorized by this decision shall terminate within six months of the effective date of this order upon a finding by the Commission that Madera Ranchos Water Company did not comply with D.82-04-011 when it had the ability to do so.

3. Ferraro shall refund service connection charges advanced by Messrs. Frakes and Cox.

4. Ferraro shall not connect any new services to its system.

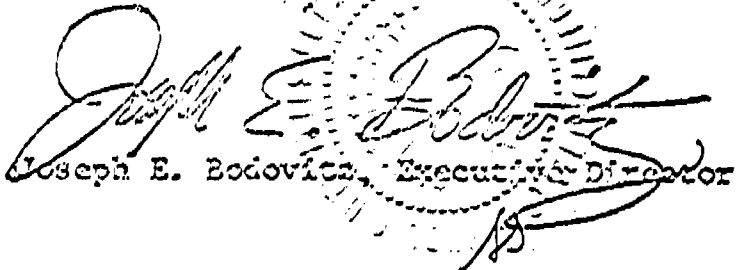
5. The staff's method of accounting for service connection charges and any subsequent refunds shall be adopted.

This order is effective today.

Dated NOV 3 1982, at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR GALVO  
PRISCILLA C. GREW  
Commissioners

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

  
Joseph E. Bodovick, Executive Director

ORIGINAL

Decision 82 11 024 NOV 3 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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September 10, 1981 to Increase Rates ) (Filed February 18, 1982)  
by \$51,703 or about 114.4 Percent. )

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Attorney at Law, for Madera Ranchos  
Water Company, applicant.  
Jeff Thomas, for the Commission staff.

O P I N I O N

I. Procedural Background

On September 10, 1981 Francis Ferraro, dba Madera Ranchos Water Company (Madera Ranchos), filed a draft advice letter seeking authority to increase rates and charges for water service by \$51,703 (114.4%). Madera Ranchos contends that its request for rate relief was actually submitted to the Commission as early as July 1981. The draft advice letter was initially handled by the Hydraulic Branch of the Utilities Division (staff) under the advice letter procedures of General Order (G.O.) 96-A, without the necessity of hearings. However, on February 18, 1982, the draft advice letter was converted by staff to Application (A.) 82-02-39. The need to determine the status of Madera Ranchos's compliance with previous Commission orders prompted the conversion. Customer protests this action.

Public hearings were held in A.82-02-39 in San Francisco, California, on July 6, 7, and 8, 1982. Claudia Stanley presented

Comparison - Utility and Hydraulic Branch - Summary of Earnings

## Test Year 1982 Proposed Rates

<u>Item</u>	<u>Utility Estimates</u>	<u>Staff Estimates</u>	<u>At Issue</u>
<u>Operating Revenues</u>			
Metered	\$ 260	\$ 260	
Flat Rate	109,200	109,200	
Private Fire Protection	-	-	
Other Revenues	450	450	
Total Operating Revenues	109,910	109,910	
<u>Operating Expenses</u>			
Purchased Power	25,030	25,030	
Payroll	19,430	19,430	
Management Salary	6,720	6,720	
Accounting, Legal, etc.	8,900	6,220	\$2,680
Contract Work	2,440	2,440	
Other O & M Expenses	13,330	13,330	
Uncollectibles @.01 x OR	1,090	1,090	
Total Operating Expenses	76,940	74,260	
Depreciation	2,030	2,030	
Property Taxes	940	940	
Payroll Taxes	2,160	2,160	
Total Deductions for Taxes	82,070	79,390	
Income Taxes	17,880	19,350*	
Total Deductions	99,950	98,740	
Net Operating Revenues	9,960	11,170	
<u>Rate Base</u>			
Average Gross Plant	350,310	350,310	
Avg. Depreciation Reserve	(129,180)	(135,270)	(6,090)
Average Advances	(5,480)	(7,300)	(1,820)
Average Contributions	(154,650)	(148,570)	(6,080)
Materials and Supplies	1,000	1,000	
Working Cash	1,230	1,120*	
Adjustments		(27,730)	(27,730)
Average Depreciated Rate Base	63,230	33,560	

\* Utility Method O.K.

(Red Figure)

There are no issues involving operating revenues. The only operating expenses in controversy involve legal expenses.



in attempting to justify \$300 as the actual cost of each service connection.

Staff further argues that if Madera Ranchos's service connection labor cost figures were reasonable, which staff disputes, they could not be included as costs of the service connections. Time spent by Ferraro, company servicemen, and office workers on service connections cannot be included as a cost of the service connections and an addition to plant since these individuals' wages and salaries are recorded as operating expenses and paid by ratepayers. Staff explains that the labor expenses correctly included in the cost of the service connections are costs of nonemployees. For instance, Stanley testified that a plumber is involved in each service connection. Plumber's charges are an example of the type of labor expenses which staff included in arriving at staff's average cost figures for service connections. In 1979, when current figures were available, staff adjusted the cost of service connections to reflect the actual "invoice cost" of labor, as well as materials paid by Madera Ranchos. Staff therefore then claims that it was able to correctly arrive at the average cost of \$186.55.

Staff calculated the service connection overcollection, i.e. the difference between actual cost and what Madera Ranchos collected, as follows:

1. Madera Ranchos collected \$91,729 for 315 services.
2. Madera Ranchos has refunded \$9,800 for 32 of these services.
3. Madera Ranchos has entered into \$9,900 worth of advance contracts for 33 of these services.
4. 315 - (32 refunds + 33 contracts)  
= 250 services.
5. \$91,729 - (\$9,500 refunds + \$9,900 contracts) = \$72,329.

7. The rates authorized by this decision should become effective immediately.

O R D E R

IT IS ORDERED that:

1. Francis H. Ferraro, dba Madera Ranchos Water Company, is authorized to file, effective today, the revised rates adopted in the body of this decision. The filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. The rates authorized by this decision shall terminate within six months of the effective date of this order upon a finding by the Commission of noncompliance with D.82-04-011 or inability to do so.

3. Ferraro shall refund service connection charges advanced by Messrs. Frakes and Cox.

4. Ferraro shall not connect any new services to its system.