

Decision No. 89254 AUG 22 1978

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
FRUITRIDGE VISTA WATER COMPANY, a  
California corporation, for an  
Order Authorizing it to increase  
Rates for Water Service within its  
certificated area, Sacramento County,  
California.

Application No. 57401  
(Filed June 27, 1977)

Martin McDonough, Attorney at Law,  
for applicant.  
Higino G. Paula, for the Commission  
staff.

O P I N I O N

Fruitridge Vista Water Company (applicant) seeks authority to increase rates by an estimated 28.16 percent for metered customers, 37.36 percent for flat rate customers, 31.57 percent for public fire protection customers, and 35.37 percent for resale customers. Applicant estimates the proposed rates would produce an additional gross of \$79,671. The presently effective rates were established by Decision No. 82367 dated January 22, 1974 in Application No. 53829.

Public hearing was held before Administrative Law Judge Banks on March 20, 1978 in Sacramento at which time the matter was submitted subject to the applicant's filing of a late-filed exhibit. This exhibit has now been received. No customers appeared at the hearing.

Testimony on behalf of applicant was presented by its manager, Mr. L. C. Smith. The Commission staff presentation was made through staff engineer Mr. H. Paula.

Background

Applicant owns and operates the water system serving an unincorporated area of approximately 2-1/2 square miles in Sacramento County, adjacent to the southern limits of the city of Sacramento. Applicant also supplies water to Southwest Tract Water Maintenance District, a political subdivision located within its service area.

Applicant obtains water from 13 wells with a total capacity of approximately 9,000 gallons per minute. The wells are equipped with deep-well turbine pumps complete with electric motors varying from 15 to 100 horsepower. The 100-horsepower motor is equipped with a variable speed transmission. Pressure fluctuations are reduced by 12 hydropneumatic tanks having a total capacity of 55,000 gallons. The distribution system consists of approximately 242,115 feet of steel and asbestos-cement pipe ranging in size from 2 inches to 10 inches. As of December 31, 1976, service was being furnished to 177 metered and 3,959 flat rate and 290 fire hydrants. To provide for the continuity of service during a possible equipment failure or period of low pressure, applicant has four emergency connections with the distribution mains of the city of Sacramento. Two diesel generators have been installed to furnish power in the event of an electrical interruption.

Service

Complaints on file in applicant's office by types for the 18-month period ending November 1, 1977 are:

Taste and Odor	8
Low Pressure	2
Leaks	58
Other	13

Utility records indicate that customer complaints received at applicant's office were satisfactorily resolved. There were no registered complaints to the Commission during the period January 1, 1977 through March 1, 1978. We conclude that service is satisfactory.

Results of Operation

A comparison of applicant's and staff's summary of test year 1977 and results adopted herein are:

## FRUITRIDGE VISTA WATER COMPANY

Comparison of Company and Staff Summary of Earnings

(Dollars in Thousands)

Item	1976 Recorded	Applicant		Staff		Adopted
		Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenues	\$223.0	\$220.5 <sup>1/</sup>	\$300.1 <sup>1/</sup>	\$220.5	\$300.1	\$248.4 ✓
Other Revenues	3.3	7.9	7.9	7.9	7.9	7.9
Total Revenues	226.3	228.4	308.0	228.4	308.0	256.3
<u>Operation and Maint. Exp.</u>						
Salaries and Wages	32.2	43.3	43.3	31.2	31.2	31.2
Pumping	28.6	29.6	29.6	26.2	26.2	26.2
Maint. of Pump.	2.1	3.2	3.2	3.2	3.2	3.2
Chemicals and Filt.	3.9	4.6	4.6	4.6	4.6	4.6
Customer Accounts	22.7	21.6	21.6	21.6	21.6	21.6
Uncollectible	.5	.6	.6	.6	.8	.6
Other	11.2	18.2	18.2	18.2	18.2	18.2
Total O & M Expense	101.2	121.1	121.1	105.6	105.8	105.6
<u>Admin. &amp; General Exp.</u>						
Admin. & General Sal.	18.0	18.0	18.0	12.0	12.0	12.0
Office Supplies	1.3	1.2	1.2	1.2	1.2	1.2
Prop. Ins.	6.3	5.3	5.3	5.3	5.3	5.3
Injuries & Damages	4.2	3.6	3.6	3.6	3.6	3.6
Emp. Pension & Ben.	6.1	5.5	5.5	5.5	5.5	5.5
Reg. Exp.	-	.9	.9	.5	.5	.9
Outside Ser.	4.4	1.3	1.3	1.3	1.3	1.3
Misc. General	6.2	6.1	6.1	1.6	1.6	1.6
Rents	3.8	2.4	2.4	2.4	2.4	2.4
Total Admin. & Gen. Exp.	50.3	44.3	44.3	33.4	33.4	33.8
<u>Taxes Other Than Income</u>						
Ad Valorem	10.1	14.3	14.3	11.3	11.3	11.3
Local Franchise	.6	.6	.6	.6	.8	.6
Payroll Taxes	4.7	4.6	4.6	3.0	3.0	3.0
Total Taxes Other Than Income	15.4	19.5	19.5	14.9	15.1	14.9
Depreciation	29.9	35.5	35.5	35.5	35.5	35.5
Income Taxes	5.2	.3	29.6	5.2	41.6	14.4
Total Oper. Exp.	202.0	220.7	250.0	194.6	231.4	204.2
Net Operating Income	24.3	7.7	58.0	33.8	76.6	52.1
Average Rate Base	496.0	563.3	563.3	563.3	563.3	563.3
Rate of Return	4.90%	1.37%	10.30%	6.00%	13.60%	9.25%

<sup>1/</sup> Applicant proposed to increase all rates except private fire protection service.  
A comparison of present and proposed rates appears in Appendix B.

Operation and Maintenance Expenses

The only areas of differences between the applicant and staff were payroll and pumping power costs.

Payroll

Exhibit No. 3 shows 1977 recorded payroll as \$44,303. Using current year end salaries plus the addition of a third serviceman, applicant estimates 1977 test year payroll as \$43,275. Applicant states that its payroll scale is at the low end of pay rates in the Sacramento area and is therefore reasonable.

The staff takes exception to applicant's estimate stating that there has been no audit of applicant's figures and that data given staff in February 1978 for recorded 1977 noncapitalized payroll was \$31,246 plus overtime. Further, staff asserts its estimate was made through analysis of five years recorded data using trends and averages.

Since there has been no audit of applicant's figures and the third serviceman has not been hired, we conclude that staff's estimate is reasonable and should be adopted.

Pumping Power Costs

Applicant's estimate for pumping power for test year 1977 exceeded the staff's estimate by \$3,360. Applicant's estimate reflected an electric rate increase to become effective May 2, 1978. Both applicant and staff estimates were based on year end 1977 recorded data, but staff asserts that power increases cannot be determined by a simple across-the-board calculation as was done by applicant and that policy does not permit inclusion of increased power costs not yet in effect. We agree with staff and will adopt staff's estimate.

Administrative and General Expense

The staff analyzed applicant's report, supporting papers, and methods of estimating administrative and general expenses. Applicant in Exhibit No. 3 accepted staff's estimates except as noted below.

Administrative Salaries

Applicant has included \$6,000 as salary for Mrs. Margaret Cook, the president of the corporation and a member of the board of directors. This amount was excluded from staff's estimate because Mrs. Cook does not participate in the daily operations of the utility.

In Decision No. 82367, we did not allow Mrs. Cook's salary as an expense pointing out that the daily operations of the utility are provided by Artz and Cook, an affiliated corporation, for a monthly fee. We are still of this opinion. The staff estimate will be accepted.

Regulatory Commission Expense

The difference in regulatory expense estimate is \$400. The staff estimates \$2,000 spread over four years while applicant's revised estimate is \$2,700 spread over three years. Because of past inflationary forces, we believe applicant's estimate is reasonable and should be adopted.

Miscellaneous General Expenses

Applicant exceeds staff's estimate by \$4,500. Applicant estimated a monthly board of directors' meeting with five directors receiving \$100 per meeting. The staff determined that to operate a company the size of applicant, six meetings a year were adequate and that \$50 per director per meeting was sufficient remuneration. We agree with staff's estimate.

Taxes Other Than Income

Ad Valorem Taxes

Applicant included property tax on its new shop building while staff excluded that amount on the basis that Commission policy precludes inclusion of taxes for property not assessed. The staff's determination is correct and will be adopted.

Payroll Taxes

The staff revised its original estimate using the latest applicable payroll tax rates schedule. The applicant in its estimate included payroll taxes on the \$6,000 salary of

Mrs. Cook. Since we have excluded Mrs. Cook's salary from expenses, we believe the staff's revised estimate is correct and will be adopted.

Depreciation

Applicant computes depreciation by the straight-line remaining life method for each depreciable plant account. Both applicant and staff calculated the depreciation accrual based on the average beginning and end-of-year plant using the last rates for the various accounts approved by the Commission. The staff's original estimate was \$3,000 less than applicant's due to the exclusion of Accounts 372-378 which staff maintains are usually expensed through clearing accounts. In Exhibit No. 3 applicant stated these accounts are not expensed and should be included in the depreciation account. After review of Exhibit No. 3, the staff agreed to accept applicant's determination.

Utility Plant in Service

Applicant's original estimate for end-of-year plant balances exceeded staff's by \$6,400 for test year 1977. This difference is because of the difference in estimates for gross plant additions and retirements and the staff having access to later recorded information. In late-filed Exhibit No. 3, applicant accepted the staff's figures which will be adopted as reasonable.

Average Rate Base

Applicant's estimates for rate base exceeded staff's by \$1,200 for test year 1977, due primarily to the staff's disallowance of \$1,000 for working cash. The staff's reasoning for the disallowance was that over 70 percent of applicant's revenues are due to flat rates and are received in advance. Again, in late-filed Exhibit No. 3, applicant accepted the staff's estimate of depreciated rate base which will be adopted.

The following tabulation sets forth a comparison of the applicant's and the staff's rate base components for 1976 recorded and the estimated test year 1977.

Utility Plant and Average Rate Base

<u>Item</u>	<u>1976 Recorded</u>	<u>1977 Estimated Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
(Dollars in Thousands)				
<u>Utility Plant</u>				
Beginning-of-Year Balance	\$1,168.0	\$1,302.4	\$1,302.4	\$ -
Gross Additions	134.4	91.4	87.0	4.4
Retirements and Adjustments:	-	3.4	5.4	(2.0)
Net Additions	134.4	88.0	81.6	6.4
End-of-Year Balance	1,302.4	1,390.4	1,384.0	6.4
Average Balance	1,235.2	1,346.4	1,343.2	3.2
<u>Average Rate Base</u>				
Average Utility Plant	1,235.2	1,346.4	1,343.2	3.2
Materials and Supplies	5.0	4.0	5.0	(1.0)
Working Cash	-	1.0	-	1.0
Subtotal	1,240.2	1,351.4	1,348.2	3.2
<u>Deductions</u>				
Average Reserve for Depr.	496.3	530.7	530.6	.1
Average Advances for Constr.	112.7	114.7	116.7	(2.0)
Average Contributions in Aid of Construction	135.2	141.5	137.6	3.9
Total Deductions	744.2	786.9	784.9	2.0
Total Depr. Rate Base	496.0	564.5	563.3	1.2

(Red Figure)



Rate of Return

The last authorized rate of return as determined by Decision No. 82367 dated January 22, 1974 in Application No. 53829 was 7.8 percent. Based on its estimates, applicant is seeking a 10.3 percent rate of return on rate base.

The Finance Division reviewed the application and concluded that applicant's capital structure for test year 1977 will consist of approximately 96 percent common equity and the remainder will be 8.25 percent short-term notes. Taking into consideration applicant's capital requirements as well as other factors, the Finance Division concluded that a reasonable rate of return for this proceeding would be 9.25 percent.

After evaluating the evidence presented, we believe applicant's request is too high and that the staff recommendation is reasonable. The Commission will adopt a rate of return of 9.25 percent which will produce a 9.28 percent return on common equity.

At the conclusion of the hearing, the staff recommended that future rates be designed on a lifeline water usage of 300 cubic feet, that the minimum charge be changed to service charge with the elimination of declining block rates, that applicant's three pumping plants with the lowest efficiency be brought up to normal efficiency, and that applicant be directed to file a program for metering services now on flat rates within three months.

There was no objection from applicant to the staff recommendation. Accordingly, the rates authorized in the order will be designed on a lifeline water usage of 300 cubic feet, the minimum charge will be changed to a service charge and the declining block rates will be eliminated. Applicant will be expected to bring the No. 5, No. 6, and the 6806 - 47th Street pumping plants up to normal efficiency and to keep the Commission apprised of the progress. Further, we will direct applicant to file a plan for metering those customers now on flat rates within 180 days from the effective date of this order.

Findings

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates of operating revenues, operating expenses, and rate base for the test year 1977, as set forth in this opinion, reasonably reflect the results of applicant's operations in the near future.
3. A rate of return of 9.25 percent on the adopted rate base and a return on common equity of 9.28 percent applicable to applicant's operation are reasonable. ✓
4. Revenues will be increased by approximately \$27,900 (12.2 percent) by the rates authorized herein.
5. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.
6. Rates authorized herein should be designed to reflect a lifeline usage of 300 cubic feet.
7. The rates authorized herein should show a service charge rather than a minimum charge and the declining block rates should be eliminated.
8. Applicant should bring pumping plants No. 5, No. 6, and 6806 - 47th Street up to normal operating efficiency.
9. Applicant should file a plan within 180 days of the effective date of this order to meter customers now receiving flat rate service. //

O R D E R

IT IS ORDERED that:

1. Fruitridge Vista Water Company is authorized to file the revised rate schedules attached to this order as Appendix A.

Such filing shall comply with General Order No. 96-A. The effective date of the new and revised tariff schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Fruitridge Vista Water Company shall file within one hundred eighty days after the effective date of this order a plan to meter customers now receiving flat rate service.

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

Dated at San Francisco, California, this 22nd  
day of AUGUST, 1978.

Robert Bateman  
President  
William J. ...  
Vernon L. ...

\_\_\_\_\_  
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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## Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

## Quantity-Rates:

Per Meter  
Per Month

First 300 cu.ft. or less .....	\$ .12	(I)
Over 300 cu.ft., per 100 cu.ft. ....	\$ .15	

## Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.00	
For 3/4-inch meter .....	3.30	
For 1-inch meter .....	4.50	
For 1 1/2-inch meter .....	6.00	
For 2-inch meter .....	8.10	
For 3-inch meter .....	15.00	
For 4-inch meter .....	20.40	
For 6-inch meter .....	33.90	(I)

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

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## Schedule No. 2

FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

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

RATES

Per Service Connection  
Per Month

1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area ...	\$ 3.68	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	\$ 2.38	
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. ....	\$ 0.04	
2. For each automobile service station, including a car wash rack, where service connection is not larger than 1-inch in diameter .....	\$ 7.80	(I)

SPECIAL CONDITIONS

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

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

(D)

APPENDIX A  
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Schedule No. 3

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to public fire hydrant service throughout the service area.

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Northgate and Gardenland Subdivision #3, and immediately adjoining territory, all located in Sacramento County adjacent to the southerly city limits of the City of Sacramento.

RATES

	<u>Per Month</u>	
Per Hydrant .....	\$ 1.65	(I)

## APPENDIX B

## FRUITRIDGE VISTA WATER COMPANY

Present and Proposed Rates

<u>Meter Rates</u>	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Quantity Rates:		
First 600 cu.ft. or less .....	\$ 1.70	\$ 2.30
Next 4,400 cu.ft., per 100 cu.ft. ....	.17	.20
Over 5,000 cu.ft., per 100 cu.ft. ....	.13	.19
Minimum Charge:		
For 3/4-inch Meter .....	\$ 2.70	\$ 2.80
For 1-inch Meter .....	4.50	5.50
For 1-1/2-inch Meter .....	9.50	11.00
For 2-inch Meter .....	13.50	16.00
For 3-inch Meter .....	24.00	28.00
For 4-inch Meter .....	38.00	45.00
For 6-inch Meter .....	76.00	90.00

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

<u>Flat Rates</u>	<u>Per Service Connection Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
1. For a single-family residential unit, including premises not exceeding 10,000 sq.ft. in area .....	\$ 3.25	\$ 4.50
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	2.05	3.00
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. ....	.03	.04
2. For each automobile service station, including a car wash rack, where service connection is not larger than 1-inch in diameter .....	6.75	8.00
3. Public fire hydrant service .....	1.50	2.00

Note: No change is proposed in the schedule for Private Fire Protection Service.