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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch**

**RESOLUTION W-4858
December 16, 2010**

R E S O L U T I O N

**(RES. W-4858), FRUITRIDGE VISTA WATER COMPANY (FVWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE,
PRODUCING AN INCREASE OF \$591,763 OR 30.5% IN TEST YEAR
2010, AMORTIZATION OF THE PURCHASED POWER BALANCING
ACCOUNT, AND RECOVERY OF ONE-TIME CHARGE OF \$1.92 FOR
AMORTIZATION OF CALIFORNIA DEPARTMENT OF PUBLIC
HEALTH USER FEES.**

SUMMARY

By Advice Letter (AL) No. 91 filed on April 26, 2010, Fruitridge Vista Water Company (FVWC) requests a general rate increase of approximately 43% resulting in an increase in revenues of \$840,836 in 2010. FVWC also requests amortization of its Purchased Power Balancing Account net balance of \$76,490 as of August 31, 2009. Finally, by AL No. 92 filed on January 20, 2010, FVWC requests amortization through a one-time surcharge of \$1.92 per customer to recover the \$8,878 balance in its User Fee Balancing Account for California Department of Public Health (DPH) User Fees not included in rates.

This resolution grants an increase of \$591,763 or 30.5 % for total test year revenue of \$2,530,096 with a resulting in an adjusted rate of return of 9.98%. FVWC is authorized to include a surcharge to amortize the \$76,490 in its purchased power balancing account over 12 months. Finally, FVWC is authorized to include a one-time surcharge of \$1.92 to each customer's bill to amortize the \$8,878 in its User Fee Balancing Account.

BACKGROUND

On July 29, 2009, FVWC filed a draft advice letter requesting a general rate increase. The staff of the Division of Water and Audits (DWA) Water and Sewer Advisory Branch (Staff or Branch) reviewed FVWC's filing and accepted it on August 6, 2009. FVWC requested authority, under Section VI of General Order (G.O.) 96-B and Section 454 of the Public Utilities (PU) Code, to increase rates by \$840,836 or 43.38% in 2010. The general rate increase was filed in order to recover increased operating expenses and

return on rate base since the last general rate case (GRC) in 2000. The request shows present rate gross revenues of \$1,938,333, increasing to \$2,779,169 at proposed rates. FVWC filed AL No. 91 on April 26, 2010, formally requesting an increase in its general rates. AL No. 91 was served pursuant to G.O. 96-B. All customers were mailed a notice of the proposed rate increase on September 14, 2009.

FVWC, a privately-owned class B water company, serves approximately 700 metered and 3,800 flat rate customers located in the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Units, Bowling Green Units, and in all immediately adjoining territory in Sacramento County, including all territory contiguous to the southerly limits of the City of Sacramento.

FVWC's current rates became effective on February 22, 2010, by AL No. 94 which requested an interim rate increase of \$52,362 or 2.7%. Prior to that, FVWC was authorized an increase of 4.1% for the Consumer Price Index -Urban (CPI-U) increase in 2007.

Staff of the Utility Audit, Finance and Compliance Branch (UAFCB) conducted an audit of the FVWC's books and records in connection with this general rate case to verify data provided by FVWC in support of its rate increase. The UAFCB issued a final audit report on April 21, 2010. The DWA issued a Staff report on FVWC's general rate increase request on May 7, 2010. The Staff report incorporated the audited figures for the years 2006 through 2008 to derive the Staff's estimates of expenses and rate base. The Staff report recommends that FVWC be granted an increase of \$159,296 or 8.22% for Test Year 2010.

FVWC filed a response to the Staff report on May 26, 2010, noting areas where there are miscalculations in the Staff report and disputing several areas where it does not agree with the Staff's findings. On September 30, 2010, FVWC requested an informal hearing before an administrative law judge to resolve issues in dispute between FVWC and Staff. An informal hearing was held on October 20, 2010. A Recommended Decision and Ruling on Appeal Request (ALJ Ruling) was issued by the Administrative Law Judge on November 8, 2010. The ALJ Ruling is attached as Appendix D.

FVWC has been owned and operated by the Cook Family for approximately 50 years. FVWC was operated by the D. J. Nelson (aka Jane Cook) Trust dba Fruitridge Vista Water Company since the purchase of the company in 1986. Decision (D.) 07-12-031 authorizes the transfer of assets and operations to Cook Endeavors, Inc., a corporation owned and controlled by beneficiary of the D. J. Nelson Trust. FVWC is a privately owned Class B water company serving approximately 15,000 people in four square miles of unincorporated area of Sacramento. FVWC's supply of water for customers is met through 17 wells, five of which are inactive, and one recently completed connection

with the City of Sacramento water system providing water supply at peak-hour demand. FVWC has no storage capability on its system. FVWC's distribution system consists of 300,747 feet of mains ranging from 1-1/2-inch to 14-inch.

NOTICE AND PROTEST

Customer notices of the proposed rate increase were mailed to each customer on September 14, 2009. Seven protest letters were received by Staff, complaining about the rate increase, quality of water and low water pressure.

On October 7, 2009, Staff held an informal public meeting at the Serna Center in Sacramento. The meeting was called to order at 6:30 PM. Project Manager Mohsen Kazemzadeh joined FVWC's General Manager Robert Cook, Jr., Operation Manager Steven Cook, and FVWC's Certified Public Accountant Chris Aldinger. Eight people attended the meeting. The comments from the public were varied. Some complained about the rate increase and hardship that it will create for older, retired, and unemployed customers. Some complained about high rate of return requested by the company. Others complained about high iron and manganese in the water. Still others questioned why FVWC did not file for a GRC several years earlier to avoid a rate shock. The meeting was adjourned at 8:30 PM. In setting rates in this resolution, we have balanced the financial requirements of FVWC with the rate concerns of its customers.

DISCUSSION

Staff performed an independent analysis of FVWC's summary of earnings. FVWC's and Staff's estimates for operating revenues, operating expenses, and rate base at both present and proposed rates for the Test Year 2010 can be found in Appendix A.

The UAFCB conducted an audit of FVWC's records. The audit focused on an examination on FVWC's 2006-2008 operating expenses and plant in service at December 31, 2008. Staff used the audited figures as the basis for some estimates of the Test Year 2010.

Staff and FVWC resolved many of their differences in test year operating expenses. We will address those expense and rate base items that remain unresolved.

Employee Labor

Employee labor includes the wages of all employees (other than the General Manager, office workers, and owners) whose time is utilized in the operation, repair and maintenance of the water system. Staff's estimate of employee labor expense is \$274,595, while FVWC's corresponding estimate is \$311,943. The difference is due to use of alternative base year expenses and escalation factors. Staff used a 2006-2008

average, adjusted to 2008 dollars, and escalated to 2010 dollars. Staff used a 3-year average method, rather than 2008 payroll expenses because the 2008 recorded labor payroll of \$300,095 is about 20% higher than the recorded adjusted expense of \$245,201 for 2006 and \$251,517 for 2007. FVWC used the recorded 2008 expense, including 15% overtime and 3.6% inflation factor to derive its estimate. In its response to the Staff report, FVWC states that the current staffing, rates of present pay, and allowance for overtime result in total employee labor of \$292,838. We will adopt this figure as a reasonable compromise between Staff and FVWC that accommodates current staffing and overtime allowance.

Management Salaries

FVWC requested two management positions, a general manager and a financial manager. FVWC's original estimate for management salaries is \$238,012, while Staff's corresponding estimate is \$144,214 based only on the need for a general manager. FVWC has hired a new financial manager and requests an additional \$6,202 in management salaries for a total request of \$244,014. The audit report found that the compensation paid to the financial manager is not related to FVWC's operations and expenses claimed by FVWC, and is unnecessary, and inappropriate. The ALJ Ruling finds that the requested salary for a financial manager appears reasonable based on reference to evidence of management staff and salaries at two of the three other Commission-jurisdictional Class B water utilities. As such, we will adopt FVWC's management salary request of \$244,014.

Office Salaries

FVWC's estimate of office salaries for Test Year 2010 is \$159,376, while Staff's corresponding estimate is \$97,180. FVWC used 2008 office salaries and escalated by 3.6% inflation factor to estimate the office salary expense. Staff excluded salaries for several employees based on the audit findings that the salary expenses incurred by these individuals are unrelated to operations of the water company as well as being unnecessary and inappropriate. The ALJ Ruling determines that the Commission has previously vetted and approved two of the positions. Based on the number of hours and an hourly rate for the part-time position and FVWC's requested salary for the other position, we concur with the ALJ Ruling establishing office salaries at \$121,750.

Employee Pension and Benefits

FVWC's reported employee pension and benefits include group insurance, employee pension, medical insurance benefits, dental insurance benefits, educational benefits and vision insurance benefits. FVWC's estimate of employee pension and benefits is \$213,955, while staff's corresponding estimate is \$127,104. The difference is due to: (1) Staff's exclusion of pension and benefit costs associated with part-time employees and consultants totaling \$41,758 for 2008; (2) Staff exclusion of costs associated with entertainment expenses such as meals, Christmas parties; BBQ, and season tickets to

professional sports teams totaling \$7,379 for 2008; and (3) different escalation factors used to derive the respective estimates. Staff was willing to compromise at FVWC's current pension and benefit costs for the full-time employees. We adopt pension and benefit expenses of \$193,905. This is based on \$37,538 in pension and benefit cost for the added position of financial manager discussed above and an increase of \$984 per month to cover the benefit costs of the general manager's dependants as determined in the ALJ Ruling.

Professional Services

FVWC's estimate of Professional Services is \$53,000, which includes expenses for accounting and PUC annual report, tax return preparation, accounting assistance, tax return-legal, public relations, and legal fees. Staff's estimate of professional services expense is \$35,054. The difference between FVWC's and Staff's estimate is due to: (1) Staff's exclusions of expenses not related to FVWC's operations in 2007 and 2008 based on audit findings, and (2) different methodology used to estimate the professional services expense. Based on the audit findings, Staff excluded the following expenses for the rate-making purposes:

2007

- Adjust, for rate-making purposes, \$2,304 in accounting fees to exclude one-time accounting fees \$1,429 and \$875 related to MTBE contamination.
- Exclude \$10,000 in lobbying costs and \$700 for public relations as image building is unrelated to provide water service.
- Exclude \$13,818 associated with incorporation matter.
- Exclude for rate-making purposes, \$1,302, related to MTBE contamination.
- Exclude for rate-making purposes, \$1,081 in legal fees for non-recurring expenditures.

2008

- Exclude for rate-making purposes, \$5,429, related to MTBE contamination.
- Exclude \$10,939 fee related to loan financing.
- Amortize \$8,096 over 3 years for accounting fees incurred for preparation of Advice Letter 85 as it benefits more than one year. Allow \$2,699 for this year.
- Exclude \$21,439, for services related to MTBE contamination.
- Exclude \$17,787, for lack of details. Only entry in accounting records state: "Per RCC, Jr., do not pay."
- Exclude \$850 for public relations as image building is unrelated to provide water service.

Staff used a 2-year (2006-2007) average of audited expenses, adjusted to 2008 dollars, and then adjusted to compensation per hour inflation to estimate 2010 professional services. FVWC separately estimated each category of professional services.

Given our authorization to FVWC for a financial manager who handles much of the legal work, we believe outside legal services will be somewhat reduced. As such, Staff's estimate of \$35,054 is a reasonable expense level for outside professional services.

Regulatory Commission Expense

FVWC's estimate of the regulatory Commission expense is \$13,000, while Staff's corresponding estimate is \$4,786. The difference in the FVWC's and Staff's estimate is due to different methods used to estimate the expense. FVWC separately estimated the costs of preparing: (1) the rate case by amortizing \$27,000 over 3 years; (2) balancing account calculation; (3) CPI filing; and (4) other filings. Staff used these same figures, but argues that the rate case costs should be amortized over a 9-year period. In response to the Staff report, FVWC argues the 9-year amortization used by Staff is not reasonable. Based on the actual regulatory costs through January 2010, FVWC requests in its response to the Staff report an amortization of \$51,654 over three years for a test year expense level of \$17,218.

We have recalculated regulatory commission expense based on a 3-year rate case cycle. We have taken a reasonable expense of preparing a rate case of \$27,000 and the recorded 2008 non-general rate case regulatory expense escalated to 2010 and have determined that \$14,358 is reasonable for regulatory expenses. This is based on FVWC filing for a 2013 test year general rate case no later than January 2013.

Taxes Other Than Income Taxes

Taxes other than income taxes include payroll taxes and property taxes. FVWC's estimate of taxes other than income is \$78,569, while Staff's corresponding estimate is \$50,299. Staff accepted FVWC's estimate of \$23,171 for property taxes. Therefore, the only difference between FVWC and Staff is due to different estimates of payroll taxes due to Staff's exclusion of salaries for several employees. Based on our adopted labor expenses discussed above, we have estimated payroll taxes at \$52,112. Thus, we will adopt estimated payroll taxes of \$52,112. Based on this estimated payroll tax figure, we find \$75,283 as a reasonable amount for taxes other than income taxes.

Income Taxes

FVWC's estimate of income taxes is \$304,052, while Staff's corresponding estimate is \$113,900. The difference between FVWC's and Staff's estimate is due to differences in estimates of operating revenues, operating expenses, interests, and depreciation. We have recalculated income taxes based on our adopted operating revenues, operating expenses, interest of \$43,760, and depreciation. We have estimated income taxes at \$264,757.

Average Plant-in-Service

FVWC's estimate of average plant in service is \$18,504,907, while Staff's estimate is \$17,924,140. The difference is due to an adjustment of \$27,736 for pumping repairs and well costs made by audit findings and exclusion of \$1,173,891 for planned construction of Well No. 18 for 2009 that has not yet been constructed. FVWC should be authorized to file a rate base offset Tier 2 advice letter, capped at the \$1,173,891, when the well is operational and used and useful. FVWC and Staff do not contest the cost estimate for Well No. 18.

Working Cash

FVWC's revised estimate of Working Cash is \$135,297, while Staff's corresponding revised estimate is \$5,102. The difference is due to different methodologies used to estimate the working cash requirements. Staff used the methodology based on the updated detailed lead/lag study submitted by FVWC in its last rate case and adopted by the Commission in Resolution W-4252 (June 14, 2001). FVWC used the simplified approach for calculating working cash outlined in Standard Practice U-16-W whereby it took its estimated operating expenses divided by 12. The ALJ Ruling finds it reasonable to adopt FVWC's estimated working cash requirement based on the simplified method. We concur.

Rate of Return

Staff recommends return on equity (ROE) of 11.30% by averaging the Class A authorized ROE (10.10%) in the past several years and the recommended average of range of Class C ROE (12.50%) by the UAFCB. Staff then derived its estimate of rate of return on rate base of 8.44% by calculating a weighted cost of capital consisting of long term debt and FVWC's common on equity. Table 1 show Staff's methodology and calculation used in deriving the estimate of the ROR.

FVWC requested an 11.04% rate of return. FVWC indicates that it deserves the highest possible rate of return. FVWC did not prepare a formal cost of money study to support the requested rate of return.

Table 1
Fruitridge Vista Water Company
Weighted Cost of Capital

Description	Capital Structure	Cost Factor	Weighted Cost
Long-Term Debt	44.6%	4.89%	2.18%
Common Equity	55.4%	11.30%	6.261%
Total	<u>100.0%</u>		<u>8.44%</u>

We will adopt 8.44% as an authorized rate of return based on Staff’s determination of the capital structure and the cost of debt and equity. The 11.3% ROE is the same as recently authorized for other Class B utilities and consistent with the average returns on equity between what we have authorized for Class A utilities and those set by the UAFCB for Class C utilities. The authorized rate of return of 8.44% is adjusted upward to 9.98% to account for the treatment of two rate base components. First is the 10% rate of return floor we established for reinvested funds from recovery of pollution litigation awards of \$831,624 authorized in D.06-04-073 and made effective in Res. W-4696 approving a rate base offset. Second is the rate of return applicable on the \$1.98 million buy-in fee for the right to purchase water from the City of Sacramento that was afforded rate base treatment in D.06-04-073. The ALJ Ruling determines that the intent of D.06-04-073 is that an 11% rate of return, then in effect, should be applied to the \$1.98 million.

Rate Design

FVWC’s current rate structure consists of several schedules: 1, Metered Service; 2, Flat-Rate Service; 4, Private Fire Protection; and 9, Metered Construction Service. The percentages of revenues generated by flat-rate, including private fire protection, and metered service, including metered construction services, at present rates are 54.59% and 44.81 %, respectively. In order to implement Commission conservation policy set forth in the 2005 Water Action Plan, we encourage water conservation through changing from flat rate to metered rate. Staff recommends that the percentage allocation of revenue requirement from flat-rate and private fire protection customers be increased to reflect the estimated percentage allocation based on sales for flat-rate and metered customers. Therefore, Staff’s recommended revenue requirement allocations of 60.26% for flat-rate customers and 39.74% for metered customers. We will adopt Staff’s revenue allocation percentages.

Based on above rate design criteria, Staff calculated the following allocations:

Flat Rate Revenue	\$1,510,087
Metered Revenue	\$1,004,827
Private Fire Protection	\$ 14,593
Metered Construction Service	\$ <u>589</u>
Total	\$2,530,096

The current rate design policy for Class B water companies specifies that 50% of fixed charges are to be recovered through service charges for metered customers. Fixed costs include all operating expenses not related to the production of water. Thus fixed costs are all water system's operating expenses less: (1) purchased water, (2) purchased power, (3) uncollectible expenses, (4) other volume related expenses, and (5) income and franchise taxes. By using this ratio of variable costs to fixed costs, Staff calculated the following allocation for metered customers for Test Year 2010:

Fixed Costs	\$ 805,750
Service Charge Revenue:	\$ 402,875
Quantity Charge Revenue:	\$ 601,952
Total metered Revenue for Test Year 2010	\$1,004,827

The new rate schedules consistent with these allocations are shown in Appendix B.

The Staff's proposed rate design for metered customers applies the "service charge allocation by meter size" ratios established in Branch's Rate Design Policy Memorandum dated January 18, 1991.

At the adopted rates shown in Appendix B, the monthly rates for residential connections using flat rate service will increase from the currently authorized interim rate of \$23.13 to \$32.06 or a 38.6% increase and the monthly bill for a one-inch metered customer using 20 Ccf per month (one Ccf equals 100 cubic feet) will decrease from the currently authorized interim rate of \$39.68 to \$39.35 or -0.8%. The adopted rates are shown in Appendix B.

Adopted quantities for test year 2010 used to derive these rates are shown in Appendix C.

Purchased Power Balancing Account

FVWC has an under collection balance of \$81,417 as of August 31, 2009, in its Purchased Power Balancing Account. FVWC has an over-collection balance of \$4,927 as of August 31, 2009, in its tariff balance account from the 2004 amortization of the Purchase Power Balancing Account authorized in Res. W-4447 dated January 8, 2004. The result is a net

under collection of \$76,490 that FVWC is requesting to be recovered through a surcharge. Staff has reviewed the work papers provided by FVWC and finds that the calculations performed to derive the purchased power balance is in compliance with the requirements for maintaining balancing accounts. Therefore, FVWC should be authorized to recover the \$76,490 and charge the metered customers \$0.0447 per Ccf over 12 months and flat-rate customers \$1.01 per month for 12 months.

User Fee Balancing Account

FVWC filed Advice Letter 92 on January 20, 2010, requesting amortization of \$8,878.24 in expenses from California DPH User Fees not presently included in rates. These fees are for the period July 1, 2008 through June 30, 2009, as shown in invoices dated March 2, 2009 and September 30, 2009. Pursuant to Commission Res.W-4698, dated July 31, 2008, Class B, C and D water utilities are authorized to establish a User Fee Balancing Account. FVWC proposes to amortize the balance in the User Fee Balancing Account through a one-time surcharge of \$1.92 per customer applied to all metered and unmetered customers. FVWC should be authorized to impose a one-time surcharge per customer of \$1.92 to amortize the fees charged by the California Department of Public Health which we have found to be always recoverable in Resolution W-4698.

Other Operational Issues

In a data request dated October 1, 2009, Staff requested FVWC to provide information regarding the fire hydrants throughout the FVWC's system whose test flows do not meet the fire flow requirements. FVWC responded that it is not applicable as FVWC "is unaware of hydrants that do not meet minimum state fire flow requirements." FVWC later indicated that it has not been testing the fire hydrants for the past several years because each test is expensive and costs \$500. FVWC is authorized to establish Fire Hydrant Flow Test Memorandum Account to record costs associated with fire flow testing of its hydrants. The expenses are capped at \$500 per test. FVWC may seek recovery of balances in the memorandum account either in its next general rate case or through a Tier 3 advice letter filing.

COMPLIANCE AND OTHER ISSUES

FVWC has been filing annual reports as required. However, FVWC's needs to update the following tariff schedules in its tariff book consistent with the Division of Water and Audits' tariff rules template: Rules Nos. 5, Special Information Required on Forms; 9, Rendering and Payment of Bills; 10, Disputed Bills; and 11, Discontinuance and Restoration of Service.

COMMENTS

Public Utilities Code Section 311 (g)(1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. FVWC has agreed to a one-day comment period in order to have this matter considered by the Commission at its December 16th meeting. If for any reason the Commission needs to revisit the rates adopted in this resolution, any changes made to the rates contained in this Resolution will be trued up back to the February 22, 2010 date that interim rates became effective.

FVWC filed written comments on December 14, 2010 on two issues. FVWC noted an error in the benefit amounts shown in the draft resolution from what was approved in the ALJ Ruling. We have made this correction. The second issue of concern is over the calculation of the weighted-average cost of capital. We reiterate that the \$1.98 million buy-in fee for the right to purchase water from the City of Sacramento is afforded a return of 11% in the calculation of the adjusted rate of return on 9.98%.

FINDINGS AND CONCLUSIONS

1. Fruitridge Vista Water Company filed Advice Letter No. 91 on April 26, 2010, requesting a general rate increase of approximately 43% resulting in an increase in revenues of \$840,836 in 2010.
2. Fruitridge Vista Water Company filed Advice Letter No. 92 on January 20, 2010, requesting amortization through a one-time surcharge to recover the \$8,878 balance in the User Fee Balancing Account for California Department of Public Health User Fees not included in rates.
3. Fruitridge Vista Water Company filed Advice Letter No. 94 on February 22, 2010 requesting an interim general rate increase 2.7% subject to refund up or down based on final rates adopted in this resolution back to the effective date of Advice Letter No. 94.
4. Advice Letter No. 94 was made effective February 22, 2010.
5. Fruitridge Vista Water Company should file a Tier 1 Advice Letter to true-up the difference between interim rates and final rates authorized in this resolution. The difference between interim rates and final rates should be amortized over 24 months.
6. Staff of the Audit, Finance and Compliance Branch conducted an audit of Fruitridge Vista Water Company's books and records in connection with the general rate case. The Audit, Finance and Compliance Branch issued a final audit report on April 21, 2010.

7. The Division of Water and Audits filed a Staff report on May 7, 2010, based on the final audit report of the Audit, Finance and Compliance Branch. The Division of Water and Audits recommends that Fruitridge Vista Water Company be granted an increase of \$159,296 or 8.22% for Test Year 2010.
8. Fruitridge Vista Water Company filed a response to the Staff report of the Division of Water and Audits on May 26, 2010.
9. On September 30, 2010, Fruitridge Vista Water Company requested an informal hearing before an administrative law judge to resolve issues in dispute between Fruitridge Vista Water Company and Staff.
10. An informal hearing was held on October 20, 2010. A Recommended Decision and Ruling on Appeal Request was issued by the Administrative Law Judge on November 8, 2010 and is attached as Appendix D.
11. Fruitridge Vista Water Company and the Staff of the Division of Water and Audits came to different estimates for employee labor. A compromise that is based on current staff level and pay provided in Fruitridge Vista Water Company's response to the Division of Water and Audits' Staff Report is a reasonable estimate for this expense item.
12. Employee labor expense for Test Year 2010 should be \$292,838.
13. The final audit report found that the compensation paid to the financial manager is not related to Fruitridge Vista Water Company's operations and expenses claimed by Fruitridge Vista Water Company, and is unnecessary, and inappropriate.
14. The ALJ Ruling found that the requested salary for a financial manager appears reasonable based on reference to evidence of management staff and salaries at two of the three other Commission-jurisdictional Class B water utilities.
15. A management salary of \$244,214, which includes compensation for the general manager and a financial manager, is a reasonable expense and should be adopted.
16. Fruitridge Vista Water Company and the Staff of the Division of Water and Audits came to different estimates for office salaries. Fruitridge Vista Water Company estimate of office salaries for Test Year 2010 is \$159,376. The Staff of the Division of Water and Audits' estimate is \$97,180.
17. The ALJ Ruling determines that the Commission has previously vetted and approved two of the positions at issue between Fruitridge Vista Water Company and Staff.
18. The ALJ Ruling establishing office salaries at \$121,750 should be adopted.
19. Employee pensions and benefits of \$193,905 based on the number of full-time employees is a reasonable expense for ratepayers.
20. Employee pension and benefits of \$193,905 should be adopted.

21. The Division of Water and Audits' use of average audited expenses adjusted to compensation per hour inflation is a reasonable estimate for 2010 professional services.
22. An expense for professional services of \$35,054 should be adopted.
23. Fruitridge Vista Water Company's estimated regulatory commission expense in its response to the Staff report of the Division of Water and Audits is \$51,654 over three years.
24. The Division of Water and Audits recommended \$27,000 in general rate case expenses amortized over 9 years plus audited 2008 non-general rate case expenses escalated to 2010 for a Test Year 2010 regulatory expense of \$8,358.
25. Fruitridge Vista Water Company should file its next general rate case for a 2013 Test Year no later than January 2013.
26. A three-year amortization of regulatory expenses estimated by the Division of Water and Audits is reasonable.
27. A regulatory commission expense of \$14,358 should be adopted.
28. Fruitridge Vista Water Company's and the Division of Water and Audits' estimates of payroll taxes vary based on differences in Test Year 2010 salaries.
29. Payroll taxes based on adopted salaries is reasonable.
30. Estimated payroll taxes of \$52,112 should be adopted.
31. State and Federal income taxes based on adopted quantities in Appendix C are reasonable and should be adopted.
32. The plant-in-service differences between Fruitridge Vista Water Company and the Division of Water and Audits are due to an adjustment for pumping repairs and well costs, and uncompleted well construction costs for Well No. 18.
33. Fruitridge Vista Water Company should be authorized to file for a Tier 2 advice letter for a rate base offset for construction of Well No. 18 when this work is completed and Well No. 18 is used and useful. The rate base offset is capped at an uncontested cost estimate of \$1,173,891.
34. Fruitridge Vista Water Company estimated working cash using the simplified approach outlined in Standard Practice U-16-W whereby estimated operating expenses are divided by 12. Fruitridge Vista Water Company's revised estimate is \$135,297.
35. To calculate its revised operating working cash of \$5,102, the Division of Water and Audits used an updated lead/lag study submitted by Fruitridge Vista Water Company in its last rate case and adopted by the Commission in Resolution W-4252.

36. The ALJ Ruling finds that Fruitridge Vista Water Company's estimated working cash requirement complies with Standard Practice U-16-W.
37. A working cash estimate of \$135,297 should be adopted.
38. A return on equity of 11.3% is the same as what has recently been given to other Class B water utilities.
39. Fruitridge Vista Water Company's weighted average cost of long-term debt is 4.89%.
40. Fruitridge Vista Water Company's capital structure is 44.6% long-term debt and 55.4% equity.
41. The weighted average cost of capital for Fruitridge Vista Water Company is 8.44%.
42. A 10% rate of return floor for reinvested funds from recovery of pollution litigation awards of \$831,624 authorized in Decision 06-04-073 and made effective in Resolution W-4696 should be used to adjust the weighted average cost of capital.
43. The ALJ Ruling finds that Decision 06-04-073 adopts a fixed rate of return of 11% for the \$1.98 million of buy-in fee paid to the City of Sacramento and should be used to adjust the weighted average cost of capital.
44. The blended rate of return of 9.98% when accounting for the 10% return on funds from recovery of pollution litigation awards and the 11% return for the buy-in fee paid to the City of Sacramento is reasonable and should be adopted.
45. A revenue requirement allocation of 60.29% for flat-rate customers and 39.71% for metered customers is consistent with water conservation policy set forth in the 2005 Water Action Plan and should be adopted.
46. The Division of Water and Audits' rate design is in accord with current rate design policy for Class B water utilities.
47. The rates shown in Appendix B are reasonable and should be adopted.
48. The Division of Water and Audits analyzed historical power consumption, water delivered, and number of service connections in determining adopted quantities shown in Appendix C.
49. The quantities shown in Appendix C to develop recommended rates are reasonable and should be adopted.
50. The summary of earnings shown in Appendix A is reasonable and should be adopted.
51. The Purchased Power Balancing Account is under collected by \$81,417 as of August 31, 2009.

52. Fruitridge Vista Water Company has an over collection of \$4,927 from its 2004 amortization of the Purchase Power Balancing Account authorized in Resolution W-4447 dated January 8, 2004.
53. The net under collection in the Purchase Power Balancing Account is \$76,490.
54. The Division of Water and Audits had reviewed the work papers associated with the Purchase Power Balancing Account and finds the calculations to derive the purchase power balance reasonable.
55. Fruitridge Vista Water Company should be authorized to recover \$76,490 and charge metered customers \$0.0447 per Ccf over 12 months and flat-rate customers \$1.01 per month for 12 months.
56. Fruitridge Vista Water Company's request to amortize \$8,878 in California Department of Public Health User Fees not presently included in rates is reasonable and consistent with the policy outlined in Resolution W-4698 dated July 31, 2008.
57. Fruitridge Vista Water Company should be authorized to impose a one-time surcharge per customer of \$1.92 to amortize the \$8,878 balance in its User Fee Balancing Account.
58. Fruitridge Vista Water Company indicates that it has not been testing the fire hydrants for the past several years to see if the hydrants meet fire flow requirements because each test is expensive and costs \$500.
59. Fruitridge Vista Water Company should be authorized to establish Fire Hydrant Flow Test Memorandum Account to record costs associated with fire flow testing of its hydrants. The expenses are capped at \$500 per test. FVWC may seek recovery of balances in the memorandum account either in its next general rate case or through a Tier 3 advice letter filing.
60. Fruitridge Vista Water Company needs to update the following tariff schedules in its tariff book consistent with the Division of Water and Audits' tariff rules template when supplementing Advice Letter No. 91: Rules Nos. 5, Special Information Required on Forms; 9, Rendering and Payment of Bills; 10, Disputed Bills, and 11, Discontinuance and Restoration of Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Fruitridge Vista Water Company to file a Tier 1 advice letter supplementing Advice Letter No. 91 by incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective Schedules 1, Metered Service; 2, Flat Rate Service; 4, Fire Protection Service, and 9, Metered Construction Service. The effective date of the

revised rate schedules shall be five days after the date the supplement to Advice Letter No. 91 is filed.

2. The request in Advice Letter No. 92 is granted. Fruitridge Vista Water Company is authorized to recover, through a one-time surcharge per customer of \$1.92, the \$8,878 balance in the User Fee Balancing Account for California Department of Public Health Fees for the period July 1, 2008 through June 30, 2009.
3. Fruitridge Vista Water Company is authorized to recover the net balance, as of August 31, 2009, of \$76,490 in its Purchased Power Balancing Account and charge metered customers \$0.0447 per hundred cubic feet over 12 months and flat-rate customers \$1.01 per month over 12 months.
4. Fruitridge Vista Water Company is authorized to file, when the work is completed and the facilities are used and useful, a Tier 2 advice letter for a rate base offset to recover well costs for construction of Well No. 18. These cost estimates are capped at \$1,173,891.
5. Fruitridge Vista Water Company shall, as part of its supplement to Advice Letter No. 91, update the following tariff rules in its tariff book consistent with the Division of Water and Audits' tariff rules template: Rules Nos. 5, Special Information Required on Forms; 9, Rendering and Payment of Bills; 10, Disputed Bills; and 11, Discontinuance and Restoration of Service.
6. Fruitridge Vista Water Company is authorized to file a Tier 1 advice letter to recover the revenue difference between interim rates adopted in Advice Letter No. 94, effective February 22, 2010, and final rates adopted in this Resolution. The revenue difference shall be amortized over 24 months.
7. The rates adopted in this Resolution are subject to refund, in the event the Commission needs to revisit the rates adopted in this Resolution.
8. Fruitridge Vista Water Company is authorized to file a Tier 2 advice letter to establish a Fire Hydrant Flow Test Memorandum Account to record costs associated with fire flow testing of its hydrants. The expenses are capped at \$500 per test. Fruitridge Vista Water Company may seek recovery of balances in the memorandum account either in its next general rate case or through a Tier 3 advice letter filing.
9. Fruitridge Vista Water Company shall file its next general rate case for Test Year 2013 no later than January 2013.

10. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2010; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

TIMOTHY ALAN SIMON

NANCY E. RYAN

Commissioners

Appendix A
Fruitridge Vista Water Company
Summary of Earnings Test Year 2010

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended</u>
	<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<u>Operating Revenue</u>					
Flat Rates	\$ 1,058,360	\$ 1,517,477	\$ 1,058,360	\$ 1,517,477	\$ 1,510,087
Metered Rates	\$ 868,770	\$ 1,245,629	\$ 868,770	\$ 1,245,629	\$ 1,004,827
Private Fire Protection	\$ 11,203	\$ 16,063	\$ 11,203	\$ 16,063	\$ 14,593
Other Water revenues	\$ -	\$ -	\$ -	\$ -	\$ 589
Total	\$ 1,938,333	\$ 2,779,169	\$ 1,938,333	\$ 2,779,169	\$ 2,530,096
<u>Operating Expenses</u>					
Purchased Water	\$ 22,511	\$ 22,511	\$ 2,196	\$ 2,196	\$ 2,196
Purchased Power	\$ 209,949	\$ 209,949	\$ 203,043	\$ 203,043	\$ 203,043
Other Volume Related Expenses	\$ 26,918	\$ 26,918	\$ 24,917	\$ 24,917	\$ 24,917
Employee Labor	\$ 311,943	\$ 311,943	\$ 274,595	\$ 274,595	\$ 292,838
Materials	\$ 61,853	\$ 61,853	\$ 61,853	\$ 61,853	\$ 61,853
Contract Work	\$ 151,942	\$ 151,942	\$ 116,392	\$ 116,392	\$ 116,392
Transportation Expenses	\$ 80,569	\$ 80,569	\$ 74,562	\$ 74,562	\$ 74,562
Other Plant Maintenance	\$ 48,040	\$ 48,040	\$ 48,040	\$ 48,040	\$ 48,040
Office Salaries	\$ 159,376	\$ 159,376	\$ 97,180	\$ 97,180	\$ 121,750
Management Salaries	\$ 238,012	\$ 238,012	\$ 144,214	\$ 144,214	\$ 244,214
Employee Benefits	\$ 213,955	\$ 213,955	\$ 127,104	\$ 127,104	\$ 193,905
Uncollectible Expense	\$ 5,856	\$ 5,856	\$ 4,667	\$ 4,667	\$ 5,568
Office Services & Rentals	\$ 65,265	\$ 65,265	\$ 60,620	\$ 60,620	\$ 60,620
Office Supplies & Expenses	\$ 56,866	\$ 56,866	\$ 56,866	\$ 56,866	\$ 56,866
Professional Services	\$ 53,000	\$ 53,000	\$ 35,054	\$ 35,054	\$ 35,054
Insurance	\$ 89,026	\$ 89,026	\$ 77,863	\$ 77,863	\$ 77,863
Regulatory Commission Expense	\$ 13,000	\$ 13,000	\$ 4,786	\$ 4,786	\$ 14,358
General Expenses	\$ 7,500	\$ 7,500	\$ 3,804	\$ 3,804	\$ 3,804
Subtotal	\$ 1,815,581	\$ 1,815,581	\$ 1,417,753	\$ 1,417,753	\$ 1,637,903
Depreciation	\$ 134,712	\$ 134,832	\$ 139,016	\$ 139,016	\$ 139,016
Taxes other than Income	\$ 78,569	\$ 78,569	\$ 50,299	\$ 50,299	\$ 75,283
Income Taxes	\$ 304,052	\$ 304,052	\$ 130,306	\$ 113,900	\$ 264,758
Total Deductions	\$ 2,332,914	\$ 2,333,034	\$ 1,737,375	\$ 1,720,969	\$ 2,116,959
Net Revenue	\$ (394,581)	\$ 446,135	\$ 200,958	\$ 1,058,200	\$ 413,137
<u>Rate Base</u>					
Average Plant	\$ 18,504,907	\$ 18,504,907	\$ 17,924,140	\$ 17,924,140	\$ 17,924,140
Ave. Accumulated Depreciation	\$ (3,295,261)	\$ (3,295,261)	\$ (3,584,231)	\$ (3,584,231)	\$ (3,584,231)
Net Plant	\$ 15,209,646	\$ 15,209,646	\$ 14,339,909	\$ 14,339,909	\$ 14,339,909
<u>Less:</u> Advances	\$ 40,979	\$ 40,979	\$ 38,381	\$ 38,381	\$ 38,381
Contributions	\$ 10,775,299	\$ 10,775,299	\$ 9,973,254	\$ 9,973,254	\$ 9,973,254
Deferred Income taxes	\$ 280,989	\$ 280,989	\$ 332,107	\$ 332,107	\$ 332,107
Deferred Investment Tax Credit	\$ 24,417	\$ 24,417	\$ 22,274	\$ 22,274	\$ 22,274
<u>Plus:</u> Working Cash	\$ 151,298	\$ 151,298	\$ (45,770)	\$ (45,770)	\$ 135,297
Materials & Supplies	\$ 31,538	\$ 31,538	\$ 31,538	\$ 31,538	\$ 31,538
Rate Base:	\$ 4,270,798	\$ 4,270,798	\$ 3,959,661	\$ 3,959,661	\$ 4,140,728
Rate of Return	-9.24%	10.45%	5.08%	26.72%	9.98%

APPENDIX B
Page 1

FRUITRIDGE VISTA WATER COMPANY

Schedule No. 1
METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rate:

All Water used per 100 cu.ft	\$0.8866	(I)
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Service Charge:

Per Meter Per Month

For	5/8 x 3/4 inch meter	\$ 8.65	(I)
For	3/4-inch meter	\$ 12.97	
For	1-inch meter	\$ 21.62	
For	1 1/2-inch meter	\$ 43.23	
For	2-inch meter	\$ 69.17	
For	3-inch meter	\$129.69	
For	4-inch meter	\$216.15	
For	6-inch meter	\$432.31	(I)

The Service Charge is a readiness-to-serve charge which is applicable to metered service and to which is to be added monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in the unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
4. A portion of each service charge will be deposited in a separate trustee account and shall be used only for payment of principal and interest associated with the buy-in fee for rights purchase water from the City of Sacramento as adopted by the Commission in D.06-04-073. The portion of each service charge that will be deposited in a separate trustee account shall be as follows: for each 5/8" x 3/4" meter, \$1.25; 3/4" meter, \$1.88; 1" meter, \$3.13; 1 1/2" meter, \$6.25; 2" meter, \$10.00; 3" meter, \$18.75; 4" meter, \$31.25; and 6" meter, \$62.50.
5. All bills are subject to the surcharge set forth in Schedule No. DHS.
6. The net balance of \$76,490 in the purchased power balancing account as of August 31, 2009 will be recovered through a surcharge of \$0.0447 per Ccf for the metered customers over 12 months. .
7. The balance of \$8,878.24 in the User Fee Balancing Account will be recovered through a one-time surcharge of \$1.92. This charge offsets the Department of Public Health fee billed to Fruitridge Vista Water Company for the period July 1, 2008 through June 30, 2009.

APPENDIX B
Page 2
FRUITRIDGE VISTA WATER COMPANY

Schedule No. 2
FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

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

RATES

Per Service Connection Per Month

1. For a single residential unit, including premises not exceeding 10,000 square feet in area	\$32.06	(I)
a. For each additional single family unit on the same premises and served from the same service connection	\$20.11	(I)
b. For each 100 square feet of premises in excess of 10,000 sq. ft.	\$0.46	(I)
2. For each automobile service station, including car wash rack, where service connection is not larger than one inch in diameter	\$66.22	(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 water serviced under Schedule No. 1, Metered Service.
3. The net balance of \$76,490 in the purchased power balancing account as of August 31, 2009 will be recovered through a surcharge of \$1.01 per month for flat-rate customers over 12 months.
4. The balance of \$8,878.24 in the User Fee Balancing Account will be recovered through a one-time surcharge of \$1.92. This charge offsets the Department of Public Health fee billed to Fruitridge Vista Water Company for the period July 1, 2008 through June 30, 2009.
5. All bills are subject to the surcharge set forth in Schedule No. DHS.
6. A portion of each service charge will be deposited in a separate trustee account and shall be used only for payment of principle and interest associated with the buy-in fee for rights purchase water from the City of Sacramento as adopted by the Commission in D.06-04-073. The portion of each service charge that will be deposited in a separate trustee account shall be as follows: each single residential unit \$1.65; each additional single family unit \$0.99; for each 100 sq. ft. of premises in excess of 10,000 sq. ft. \$0.01; and each automobile service station \$3.30.
7. A late charge will be imposed per Schedule LC
8. In accordance with section 2714 of the Public Utilities code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in the unit will, at the company's option, be furnished on the account of the landlord or property owner.
9. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B

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FRUITRIDGE VISTA WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

Per Month

For each inch of diameter of service connection	\$ 6.54	(I)
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SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and cost paid by the applicant. Such payment shall not be subject to refund
2. The minimum diameter for fire protection shall be 4 inches. And the maximum shall not be more than the diameter of the water main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
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 the 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 operations of the system.
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX B

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FRUITRIDGE VISTA WATER COMPANY

Schedule No. 9

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction water.

TERRITORY

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

RATES

Quantity Rate

Per 100 cu. ft.	\$0.8866	(I)
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Minimum charge

Per Meter Per Day

For all sized of meter.....	\$8.87	(I)
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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.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

Page 1

FRUITRIDGE VISTA WATER COMPANY

ADOPTED QUANTITIES

Test Year 2010

Expenses:

1. Purchased power (Electric)

Vendor	Sacramento Municipal Utility District (SMUD)
Schedules	GSS and GSN
Effective Date	9/1/2009
Total cost (\$)	\$203,045
kWh Used	1,758,404
SMUD Summer Rate Schedule - GSS	
Customer Charge (per month)	\$19.00
Over 20 kWh demand, /kWh	\$6.30
Minimum Demand Charge	-
1st 7,300 kWh, /kWh	\$0.1174
Over 7,300 kWh, /kWh	\$0.09050
Solar Surcharge/kWh	\$0.00090
State surcharge /\$ revenue	\$0.00160
SMUD Winter Rate Schedule - GSS	
Customer Charge (per month)	\$19.00
Over 20 kW demand, /kW	\$6.30
Minimum Demand Charge	-
1st 7,300 kWh, /kWh	\$0.1064
Over 7,300 kWh, /kWh	\$0.0848
Solar Surcharge/kWh	\$0.00090
State surcharge /\$ revenue	\$0.00160
SMUD Summer Rate Schedule - GSN	
Customer Charge (per month)	\$7.65
Over 20 kWh demand, /kWh	-
Minimum Demand Charge	-
1st 7,300 kWh, /kWh	\$0.11780
Over 7,300 kWh, /kWh	\$0.11780
Solar Surcharge/kWh	\$0.00090
State surcharge /\$ revenue	\$0.00160
SMUD Winter Rate Schedule - GSN	
Customer Charge (per month)	\$7.65
Over 20 kW demand, /kW	-
Minimum Demand Charge	-
1st 7,300 kWh, /kWh	\$0.11400
Over 7,300 kWh, /kWh	\$0.11400
Solar Surcharge/kWh	\$0.00090
State surcharge /\$ revenue	\$0.00160

APPENDIX C

Page 2

FRUITRIDGE VISTA WATER COMPANY

ADOPTED QUANTITIES

Test Year 2010

2. Purchased Water @ 57 Ccf	\$2,196
3. Insurance Expenses	\$77,863
4. Ad Valorem Taxes	\$23,171
5. Payroll Taxes	\$52,112
Social Security	\$48,500
Federal Unemployment	\$672
State Unemployment	\$2,940
6. Number of Service Connections:	
Metered Rate	
5/8 x 3/4 inch meter	0
3/4-inch meter	4
1-inch meter	352
1-1/2 inch meter	160
2-inch meter	164
3-inch meter	29
4-inch meter	10
6-inch meter	<u>4</u>
Total	<u>723</u>
Flat Rate	3,810
7. Total Water Production	1,848,063 Ccf
8. Total Water Sales-Metered Customers	733,958 Ccf
9. Unaccounted for water	7.5%

APPENDIX C

Page 3

FRUITRIDGE VISTA WATER COMPANY

ADOPTED QUANTITIES

Test Year 2010

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$2,530,096	\$2,530,096
2.	O & M Expenses	\$1,637,903	\$1,637,903
3.	Taxes Other Than Income	\$75,283	\$75,283
4.	Depreciation and Interest	\$182,776	\$182,776
5.	Taxable Income for State Tax	\$634,134	
6.	State Tax	\$56,057	
7.	Taxable Income for FIT		\$578,077
8.	Federal Income Tax		\$208,700
9.	Total Income Tax		\$264,757
	California Corporate Franchise Rate	8.84%	
	Federal Income Tax Rate		
	On first \$50,000 of taxable income	15%	
	On next \$25,000 of taxable income	25%	
	On next \$25,000 of taxable income	34%	
	On next 235,000 of taxable income	39%	

(END OF APPENDIX C)

APPENDIX D

RECOMMENDED DECISION AND RULING ON APPEAL REQUEST

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Appeal Request of Fruitridge Vista Water Company of Draft Resolution W-4842 Authorizing A General Rate Increase of \$441,243 or 22.76% in Test Year 2010.

Appeal Request
(submitted
September 30, 2010)

**RECOMMENDED DECISION AND RULING
ON APPEAL REQUEST**

1. SUMMARY

This recommended decision resolves the contested issues raised in Fruitridge Vista Water Company's appeal request of Draft Resolution W-4842 authorizing a general rate increase of \$441,243 or 22.76% in Test Year 2010 as follows:

- Authorize the utility's requested working cash requirement of \$135, 297.
- Apply an 11% rate of return to the \$1.98 million of buy-in fee.
- Authorize a management salary of \$244, 214, which reflects the utility's original request of \$238,012 plus an additional \$6,202 to adjust for the actual salary of the new financial manager.
- Deny the utility's request for an additional \$17,946 for professional legal services.
- Authorize an office salary for Erin Cook based on 20 hours per month at the hourly Test Year 2000 wage of \$21.82 escalated by a 3.6% inflation factor.

- Authorize the utility's requested office salary for Kristen Cook.
- Authorize employee benefits costs related to the new financial manager.
- Authorize an additional monthly cost of \$43 for cost of insurance coverage for General Manager's spouse and dependents.
- Amend adopted quantities.
- Add additional procedural history to the background discussion regarding submission and finalization of the advice letter.
- Authorize \$500 per required fire flow test.

The Division of Water and Audits is directed to incorporate this recommended decision into the Division's resolution resolving Fruitridge Vista Water Company's Advice Letter No. 91 requesting a general rate increase, and to present that resolution to the Commission for consideration.

2. PROCEDURAL BACKGROUND

In accordance with the procedure established in Decision (D.) 92-03-093, by letter dated September 30, 2010, Fruitridge Vista Water Company (FVWC) made this appeal request for an informal hearing before an administrative law judge to resolve contested issues regarding Draft Resolution W-4842, which would grant Fruitridge a general rate increase of \$441,243 for Test Year 2010. An informal hearing was set for October 20, 2010, at which time FVWC and the Commission's Division of Water and Audits (Division) appeared and presented evidence and argument under oath regarding the contested issues. This recommended decision resolves the contested issues and directs the Division to incorporate the resolution of the contested issues, as set forth in this recommended decision, in the Division's Draft Resolution and to present that Draft Resolution to the Commission for consideration.

3. WORKING CASH

FVWC requests a working cash requirement of \$135, 297, which it calculated using the simplified method set forth in Standard Practice U-16-W. FVWC contends that Standard Practice U-16-W provides for using the simplified method for utilities of its size, and presented evidence that the simplified method was used to calculate working cash requirements in the most recent general rate cases for other Class B water utilities (East Pasadena Water Company, the Del Oro Water Companies (Magalia, Pine Flat, and Paradise Pines) and Alco Water Company.

The Division recommends a working cash requirement of \$5,102, based on its update of the lead/lag study FVWC submitted in its last rate case and updated based on the expenses and revenue allocations proposed in that Draft Resolution W-4248. The Division notes that Standard Practice U-16-W allows staff the discretion to use its judgment in determining whether to use the simplified method or a detailed lead/lag study. (See, e.g., Standard Practice U-16-W, ¶ 3 [sic], at 1-3.) The Division notes that FVWC bills its flat rate customers every two months in advance.

Based on the evidence, it is reasonable to adopt FVWC's estimated working cash requirement based on the simplified method. I note that, unlike FVWC, the comparison Class B water utilities' customer bases are entirely metered. However, Standard Practice U-16-W does not identify the existence of flat-rate, advance billing as a determining factor with respect to the appropriate methodology to be used. Indeed, the simplified method apparently contemplates its application where some (or all) customers are flat-rate customers and billed in advance by including this factor in the calculation. (See, e.g., Standard Practice U-16-W, Chapter 2, ¶ 2.a, at 2-3.)

In contrast, Standard Practice U-16-W emphasizes that the detailed lead/lag study should only be undertaken after the “engineer [...] familiarize[s] himself with the operations of the utility, its accounting procedures for accruing expenses, payment procedures and schedule, and management’s viewpoint of working cash needs. Without this information, the engineer would not be knowledgeable enough to be able to request the pertinent facts from the utility in the preparation of the data to complete a detailed study of working cash allowance.” (Chapter 3, ¶ 5, at 1-2 - 1-3 [sic].) There is no evidence that the Division undertook this effort: Although the Division provided a spreadsheet containing its calculation, the spreadsheet does not on its face indicate whether it stemmed from such an effort by the analyst, the analyst who performed it is retired from the Commission and was not available at the informal hearing, and the Division did not (understandably under the circumstances) offer any other evidence of what went into the analysis. Furthermore, FVWC was not provided any opportunity to review the Division’s updated lead/lag study prior to the Division producing it, at my direction, two days before the informal hearing.

There is no dispute that FVWC’s estimated working cash requirement complies with Standard Practice U-16-W. In contrast, there is no evidence that the Division’s updated detailed lag/lead study was performed after the analyst undertook to familiarize himself with FVWC’s operations and needs. The Commission should authorize a working cash requirement of \$135, 297.

4. RATE OF RETURN ON \$1.98 MILLION OF BUY-IN FREE

FVWC requests that \$1.98 million of the buy-in fee for the right to purchase water from the City of Sacramento be excluded from the rate of return calculation and that, instead, an 11% rate of return be applied to this portion of rate base. FVWC asserts that this ratemaking treatment is required pursuant to

the settlement adopted by the Commission in D.06-04-073, which provides as follows:

The parties understand that a buy-in fee for the right to purchase water like Fruitridge Vista will pay to the City of Sacramento is normally considered plant and is therefore eligible to earn a rate of return. The parties agree that, for ratemaking purposes, \$1.98 million of the buy-in fee will be treated as plant, as is customary, at the company's authorized rate of return, 11%. California Public Utilities Commission approval of this settlement means that this treatment of \$1.98 million of the buy-in fee for Fruitridge Vista is not subject to future litigation, either in response to an advice letter or in future general rate cases or otherwise. This rate will allow Fruitridge Vista to collect sufficient revenues through the increased monthly billing rate to pay off the financing extended by the City of Sacramento and have \$80,000 per year remaining. Fruitridge Vista commits to make system infrastructure investments of at least \$80,000 per year with the revenues that it collects from ratepayers that exceed the payments due to the City of Sacramento and associated taxes on the buy-in fee associated with [this water purchase right].

FVWC demonstrates that applying an 11% rate of return to this \$1.98 million will produce \$217,800 in revenues, which is nearly exactly equal to the sum of the financing payment plus the \$80,000 infrastructure investment commitment. FVWC demonstrates that, by treating the \$1.98 million as proposed by the Division, the revenue associated with this \$1.98 million will be only \$99,406, which is insufficient to cover the financing payment alone.

The Division contends that the plain language of the settlement does not authorize this special ratemaking treatment. Indeed, the settlement language that the applicable rate of return on the \$1.98 million is "the company's authorized rate of return, 11%" is ambiguous. If the parties intended that the applicable rate of return be 11% for all time, it would have been clearer to so state without reference to the fact that the figure represented the then-applicable rate

of return. If the parties intended that the applicable rate of return be the rate of return in effect at the time, it would have been clearer to so state without reference to the particular rate of return that was in effect at the time. Given the ambiguity of the language, it is necessary to look elsewhere to determine the intent of the settlement.

The Division notes that, in establishing a 10% floor on the rate of return applicable to a \$5 million addition to rate base associated with a court-ordered pollution award, D.06-04-073 states its agreement with the Commission's accounting staff that, as a matter of policy, a uniform rate of return on all plant should apply. (D.06-04-073 at 17-18.) The Division interprets this to mean that, with the exception of this 10% floor with respect to the pollution award, D.06-04-073 requires that all plant be treated the same, including the \$1.98 million. To the contrary, the Commission's statement of support of the uniform treatment of all utility plant is not determinative: It is made in the context of a specific modification that the Administrative Law Judge proposed to make to the settlement, it is tempered by the Commission's approval of special treatment for the specific plant that is the subject of that modification, and it is dicta.

The Division states that it requested the Commission's Legal Division opinion as to the interpretation of the settlement and decision, as well as the settlement mediator's best recollection as to the settlement parties' intent, and that Legal Division and the settlement mediator both concurred with the Division's interpretation of the settlement and D.06-04-073. With all due respect to Legal Division and the settlement mediator (who may not have had all pertinent information before them at the time that they provided their advisory opinions), I find that the intent of the settlement, as approved by the Commission in D.06-04-073 (modified by D.06-09-040), was to produce revenue associated

with the \$1.98 million sufficient to cover the financing payment plus an annual \$80,000 investment in infrastructure by means of applying an 11% rate of return to the \$1.98 million. The Commission should apply an 11% rate of return to the \$1.98 million.

5. MANAGEMENT SALARIES

FVWC originally requested management salaries of \$238,012, which included compensation for Robert Cook, Sr.'s services as financial manager. Cook, Sr. recently passed away. FVWC has hired a new financial manager, Mark Chrisler, and requests an additional \$6,202 to adjust for a slight salary increase.

The Division contends that the compensation paid to Cook, Sr. is not related to FVWC's operations and expenses, and is unnecessary and inappropriate. Specifically, the staff audit report states that FVWC described Cook, Sr.'s responsibilities as providing professional business, financial and non-specific legal advice, which should be the general manager's responsibilities. The staff audit report states that, to the extent that FVWC requires legal advice, it has outside counsel for that service. Finally, the staff audit report states that FVWC failed to document Cook, Sr.'s services to FVWC, which is particularly critical under these circumstances where there is an appearance of nepotism. The Division contends, therefore, that FVWC does not require the services of a financial manager. Furthermore, the Division notes that Chrisler does not have the legal expertise that the Commission previously relied on, in part, in authorizing compensation for Cook, Sr. as financial manager. (See the April 10, 2001, Administrative Law Judge's ruling resolving FVWC's request for appeal of the Division's draft resolution of its 2001 general rate case.)

FVWC contends that the Commission previously considered and rejected the Division's objections to compensating Cook, Sr. as financial manager, in the

April 10, 2001, Administrative Law Judge's (ALJ) ruling resolving FVWC's request for appeal of the Division's draft resolution of its 2001 general rate case. FVWC presents evidence of management staffing and salary levels and annual legal expense at five comparable utilities: Three of the companies have two managers, while East Pasadena has one manager and Alco Water Corporation has three. At FVWC's requested compensation, its combined cost for management salaries plus annual legal expense is \$252,737, which is lower than that of all other comparable utilities other than East Pasadena Water Company (\$108,000).

The requested salary for a financial officer appears reasonable by reference to the evidence of management staffing and staffing levels and annual legal expense at comparable utilities, and should be granted.

6. PROFESSIONAL SERVICES

FVWC originally estimated professional services of \$53,000, which includes expenses for accounting and Commission annual report, tax return preparation, accounting assistance, tax return-legal, public relations, and legal fees. Staff excluded certain unrelated non-recurring expenses and costs and used the 2-year (2006-2007) averaged audited expenses adjusted to 2008 dollars, and estimates professional services expense of \$35,054.

FVWC states that it will need additional legal services without Cook, Sr. on staff. "FVWC estimates that the actual amount will be higher," and seeks an additional \$17,946 in professional services for this purpose. FVWC states that this amount is the difference between FVWC's original estimate and Staff's estimate of professional services expenses.

The fact that \$17,946 represents the difference between FVWC's original estimate and Staff's estimate of professional services expenses is an insufficient

basis upon which to authorize it in rates. In the absence of any record basis upon which to grant FVWC's request, the Commission should deny it.

7. OFFICE SALARIES

FVWC requests an office salaries expense of \$147,495, which includes the salaries for Erin Cook and Kristen Cook. The Division objects to allowing compensation for Erin Cook and Kristen Cook.

7.1. Erin Cook

The Division contends that Erin Cook's salary should be disallowed because the work that she performs could be done by the office manager and is compensated at an excessive rate. According to the staff audit report, Erin Cook worked on-call, covering work overload from the office manager and customer service manager. During the 2006-2008 timeframe, she worked on an on-call basis between 10 and 30 hours per month, which translates to an hourly rate ranging from \$94 to \$284 per hour (at her 2008 salary). The Division also contends that some of the work she performed was to support Cook, Sr.'s court cases that were unrelated to water utility service.

FVWC contends that the Commission previously considered and rejected the Division's objections to compensating Erin Cook in this capacity. (See April 10, 2001, ALJ's ruling resolving FVWC's request for appeal.) FVWC contends that Erin Cook's hourly rate is skewed because she spent less time in the office due to the timing of the rate case, which required FVWC to wait for the State funds related to the settlement in D.06-04-073. FVWC states that it foresees needing her services more regularly in the future.

While the Commission previously vetted and approved a salary for Erin Cook, we did so at a Test Year 2000 hourly rate of \$21.82. Apart from FVWC's statement of general anticipation, there is no evidence that FVWC will require more hours of Erin Cook's services going forward than it did over the

past three years. Based on the last three years, it is reasonable to assume that Erin Cook will work an average of 20 hours per month. The Commission should grant FVWC office salary expense compensation for Erin Cook based on 20 hours per month at the hourly Test Year 2000 wage of \$21.82 escalated by a 3.6% inflation factor.

7.2. *Kristen Cook*

The Division contends that Kristen Cook's salary should be disallowed because her work could be performed by the current hourly part-time employee (by increasing his/her hours) and/or by the office manager. The Commission has previously approved Kristen Cook's position and associated salary rate as reasonable. The record does not support a reversal of this determination. The Commission should authorize FVWC's requested office salary for Kristen Cook.

8. EMPLOYEE BENEFITS

FVWC requests employee benefits for its new financial manager, Chrisler. As discussed above, the Division objects to allowing a management salary for a financial manager. However, the Division stated that, in the event that the Commission allows a management salary for a financial manager, it does not object to adjusting the revenue requirement to account for associated expenses, including employee benefits and payroll taxes. The Commission should authorize compensation for employee benefits for Chrisler.

The Division would disallow employee benefits for FVWC's part-time employees. FVWC does not object, but contends that the allowance for Cook, Jr.'s health, dental and vision benefits must therefore be increased to cover his spouse Erin Cook and their dependents, consistent with company policy. FVWC notes that this will cost slightly more (\$43) per month than under the current arrangement wherein Cook, Jr. as General Manager and Erin Cook as part-time employee have separate policies. The Division does not dispute that Erin Cook

and their dependents are entitled to coverage under Cook, Jr.'s employee benefits. The Commission should authorize an increase to Cook, Jr.'s employee benefits to cover this additional cost.

9. ADOPTED QUANTITIES

FVWC identifies the need to correct the figures used in the calculation for purchased power rates, purchased water quantity, and interest expense. The Division does not dispute FVWC's proposed corrections, and agrees to make them.

10. PROCEDURAL BACKGROUND DISCUSSION

FVWC requests that Finding and Conclusion No. 1 be revised to reflect additional procedural history, in particular, the fact that FVWC submitted its draft advice letter and that Staff deemed in complete well in advance of the date that it was noticed to customers and deemed to be filed pursuant to General Order (GO) 96-B. As written, Finding and Conclusion No. 1 accurately reflects GO 96-B and Commission practice, and it is unnecessary and contrary to Commission practice to set forth the entire procedural history of this matter in findings and conclusions. Nevertheless, in order to provide a fuller record of the procedural background underlying this finding and conclusion and after considering proposed language from FVWC and the Division, I direct the Division to substitute the following paragraph for the first sentence under the heading "Background" in Draft Resolution W-4842:

FVWC submitted a draft Advice Letter requesting an increase in rates in February 2009 (prior to the 2008 recorded amounts being available). Staff informed FVWC on March 25, 2009 that the draft Advice Letter could not be considered for completeness and acceptance until it was revised to include recorded 2008 amounts. After the 2008 accounting was completed, FVWC submitted a revised draft of the Advice Letter on July 29, 2009. On August 6, 2009, Staff informed FVWC that the submittal was deemed complete.

FVWC served the advice letter on its customers, as required by GO 96-B, Water Industry Rule 3.1, on April 26, 2010.

FVWC further requested that the Draft Resolution be modified to make reference to its CPI increase filing in Advice Letter 94, dated February 2010. FVWC withdrew its request at the informal hearing, when it was clarified that the resolution of its general rate case advice letter is procedurally separate from its CPI increase filing advice letter.

11. FIRE FLOW TESTS

By email dated October 19, 2010, FVWC identified its objection to Finding and Conclusion No. 53 and corresponding Ordering Paragraph No. 8, as an additional issue that it wished to have resolved in its appeal request. Specifically, as proposed by the Division, the draft resolution would require FVWC to provide, as part of its next general rate case, "data from its pressure recorders to show that it is meeting minimum fire flow requirements." FVWC states that it cannot comply with this requirement because the referenced pressure recorders will be dismantled at the conclusion of construction that is required to be done pursuant to the comprehensive settlement agreement approved in D.06-04-073. FVWC states that its fire flow was last tested in 2007 and that it has no basis to believe that it no longer meets fire flow requirements. FVWC contends that, if the Commission nevertheless requires it to provide data in its next general rate case to show that it is meeting minimum fire flow requirements, the Commission should authorize the cost of \$500 per test that would be required to meet this requirement.

The Division does not withdraw its recommendation, and does not appear to offer any objection to allowing FVWC compensation for the cost of performing the required tests. The Division should determine the number of required tests, and the Commission should authorize expenses of \$500 per test.

12. OTHER ISSUES

FVWC objects to any recommendation in Staff's April 21, 2010, audit report that would require FVWC to revise its prior reports to the Commission. There is no such recommendation in Draft Resolution W-4842, and so the Commission need not address this dispute.

FVWC requests revisions to Finding and Conclusion 12 and 13 (regarding pensions and benefits for new financial manager), 16 (regarding professional services expenses to include additional legal expenses), 22 through 25 (payroll taxes), 28-31 (working cash), 32 through 38 (rate of return), and 53 (fire flow tests). The Commission should revise those findings and conclusions consistent with the resolution of the underlying issues as set forth in this recommended decision and ruling.

FVWC requests deletion of Ordering Paragraph 7, which requires FVWC to include, in its next general rate case, a plan for upgrading any of its 2-inch pipes that functionally operate as mains. FVWC states that none of its 2-inch pipes functionally operate as mains. The ordering paragraph should be deleted.

13. PUBLIC REVIEW AND COMMENT

On November 4, 2010, FVWC, through its general manager Robert Cook, Jr., informed me that it stipulates to reducing the time for public review and comments on the draft resolution to enable the Commission to consider it at the December 16, 2010, meeting. I direct the Division to reflect FVWC's stipulation to reduce the time to comment in the revised draft resolution, and to issue the revised draft resolution by no later than November 29, 2010.

IT IS RULED that the Commission's Division of Water and Audits shall incorporate this recommended decision into its draft resolution resolving Fruitridge Vista Water Company's 2010 Test Year general rate case, and issue that draft resolution by no later than November 29, 2010, to allow the Commission to consider it at the December 16, 2010, meeting.

Dated November 8, 2010, at San Francisco, California.

/s/ HALLIE YACKNIN

Hallie Yacknin
Administrative Law Judge

