

Decision No. 45973

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
Citizens Utilities Company of California, )  
a corporation, for authority to increase )  
water rates for its water system serving )  
the area known as Boulder Creek-Brookdale- )  
Ben Lomond, Santa Cruz County, California. )

Application No. 31723  
(Amended)

Appearances for applicant: Orrick, Dahlquist,  
Neff & Herrington, by G. H. Johnston and W. A. Palmer.

Protestants: Business and Professional Women's  
Club and Ben Lomond Recreation District, by A. E. Wilder;  
H. B. Coon, in propria persona; San Lorenzo Valley  
Chamber of Commerce, by W. S. Kewer; San Lorenzo Valley  
Property Owners Association, Inc., by J. K. Field;  
Larita Woods Mutual Water Company, by A. W. Archer;  
Parker A. Willey, by W. C. Izant.

Interested parties: San Lorenzo Valley County  
Water District, by Lloyd R. Miller of Lucas, Wyckoff &  
Miller; Boulder Creek Businessmen's Association, by  
G. V. Bonine; Lorenzo Water Works, by Otto J. Holm;  
San Lorenzo Valley Sun, by J. P. Pletschet;  
Fred McPherson, Editor, Sentinel News, by Leon Rowland.

Other appearances: C. G. Ferguson, for the  
Commission staff.

O P I N I O N

Citizens Utilities Company of California, a corporation,  
operating a public utility water system in the unincorporated towns  
of Boulder Creek, Brookdale, Ben Lomond, and Glen Arbor, and adjacent  
territory in San Lorenzo Valley, Santa Cruz County, California, on  
September 1, 1950, filed the above-entitled application for authority  
to increase water rates. On February 19, 1951, it filed an Amendment  
to Application seeking a greater increase of rates than that  
requested in its original application, basing the same upon the

alleged further increases in the cost of labor, material, and supplies, and a substantial increase in the federal income tax rate occurring subsequent to the filing of said application.

Public hearings were held at Ben Lomond on May 29 and 31, 1951, before Examiner M. W. Edwards. Briefs and reply briefs have been filed.

The applicant, which is the wholly-owned subsidiary of the Citizens Utilities Company of Greenwich, Connecticut, operates water and telephone systems at scattered points throughout northern California. The Boulder Creek Division of the Water Department, with which we are concerned in this application, served 1,982 customers as of December 31, 1950, through approximately 291,500 feet of mains varying in size from 3/4 inch to 6 inches in diameter. Water is obtained from streams and springs, by diversion, and, in general, is delivered by gravity flow.

#### Company's Position

Applicant claims that the existing rates and charges have been in effect for more than 25 years and lately have not produced a fair and reasonable rate of return upon its investment. For the past 10 years applicant claims it has earned less than 3.5% rate of return and expects it to drop to 2.13% in 1951 due to a sharp rise in its expense levels. Without a fair and reasonable return, applicant states it cannot maintain its financial integrity, attract capital to provide necessary plant additions and maintain adequate service.

To meet its utility obligations and maintain a sound financial condition, applicant proposes to raise rates sufficiently to increase revenues on the 1951 level of business from \$45,000 to \$76,000 or by 68.8%. It claims that the increased rates will bring

its return up to 5.8% on an undepreciated rate base and 6.5% on a depreciated rate base. At the public hearing applicant's president made a plea for a rate of return in the 7% to 7.5% area. The applicant requested retroactive rate relief to the date the application was filed, September 1, 1950, or at least back to January 1, 1951.

#### Customer Representation

Customers and their representatives were present at each of the public hearings and several presented testimony relative to the operations of this utility. The primary problem was low pressure and lack of sufficient water on week ends during the late summer months of August and September. The position taken by the representative of the Ben Lomond Recreation District was that the utility had not installed all of the improvements specified by Decision No. 41355 of Case No. 4906 and Application No. 25401, dated March 23, 1948. Mr. Coon was concerned over the fact that the utility had not arranged to sign a new contract for his spring and well water at an increased price. The San Lorenzo Valley County Water District presented facts indicating more storage is needed at certain points, more employees are needed to attend to service needs, and more pipe should be installed to parallel the Boulder Creek-Ben Lomond transmission line to eliminate a bottleneck. Opposition to an increase in rates was primarily based on the quality of the service.

In order to meet the contentions of the customers, the applicant arranged to purchase all of Mr. Coon's supply at a rate of 6 cents per 100 cubic feet, with a guaranteed annual minimum payment of \$1,200; to install a 150,000-gallon storage tank at an elevation of 538 feet on a site approximately 850 feet east of Mr. Coon's property at an estimated cost of \$8,800; to install necessary pump, motor, and pipe to deliver water to the tank at an added estimated cost of \$6,350; to replace a 5 hp booster pump with

a 15 hp booster pump in the Boulder Creek-Wildwood transmission line; and to make other improvements as listed on Exhibit No. 4 in this proceeding.

The development of the Coon supply and installation of more storage will provide some relief relative to available water. Applicant claims the installation of such projects as the Jamison Dam on Boulder Creek at \$860,000, the Zyante Creek Dam and Reservoir at \$1,050,000, and the Bear Creek Dam and Reservoir at \$2,000,000, are of such magnitude as to preclude its undertaking any of them because of the prohibitive water rates that would be required. The applicant expressed interest in purchasing water at a reasonable figure from any large project which the county or some other agency could afford to develop in the area.

#### Evidence on Earnings

Both the company and the Commission's staff presented estimates of the earnings for the year 1951 on the assumption that present rates and proposed rates were to be effective for the full year as indicated:

ESTIMATED EARNINGS IN 1951					
	Company :	Company :	Company :		
	Exhibit 15:	Exhibit 16:	Exhibit 17:	Staff Exhibit 20:	
	Present	Proposed:	Proposed:	Present:	Proposed:
Item	Rates	Rates	Rates	Rates	Rates
Operating Revenues	\$ 45,000	\$ 76,000	\$ 76,000	\$ 43,800	\$ 76,900
Operating Expenses	21,465	21,990	21,990	19,050	19,050
Depreciation	8,527	8,527	4,300	4,100	4,100
Taxes	8,048	24,109	26,902	7,800	23,860
Total Expenses	38,040	54,626	53,192	30,950	47,010
Net Revenue	6,960	21,374	22,808	12,850	29,890
Rate Base	327,361	327,361	392,000	380,000	380,000
Rate of Return	2.13%	6.5%	5.8%	3.38%	7.87%

In the preceding tabulation the company used a depreciated rate base in Exhibits Nos. 15 and 16 and an undepreciated rate base in Exhibit No. 17. The staff used an undepreciated base in both calculations. When a depreciated rate base is used under the modified sinking fund method, the interest on the depreciation reserve is allowed as an operating expense. The depreciation reserve was deducted to arrive at the lower rate base figures shown in the first two columns.

Applicant's estimated operating expenses are nearly \$3,000 larger than the staff's. Applicant claims the staff's estimate of source of water supply, pumping and purification expenses are approximately \$1,600 low, due primarily to the increased expenses in connection with purchase of water from Mr. Coon. It claims the staff's estimate of transmission and distribution expense is approximately \$1,300 low, due primarily to a projected cost of \$1,000 in connection with the reconstruction of a portion of the state highway running through its service area. It also requests an allowance for amortization of rate case expense in a total amount between \$2,500 and \$3,000.

The difference in tax estimates is primarily due to the staff's using a deduction of \$83,000 as interest charges on indebtedness to the parent company in contrast to a figure of \$63,000 used by the company. All of the above estimates were computed on a 47% federal income tax rate but the company requested that consideration be given to 52% tax rate now under consideration by the Congress of the United States and the 55% rate requested by President Truman.

The difference in rate base estimates, on an undepreciated basis, is primarily due to the fact that applicant used a year-end figure while the staff followed its customary practice of using an average figure for the year with plant additions weighted for operative dates.

In considering the record in this proceeding, it clearly appears that applicant will have need for additional revenues if, under current wage and tax levels, it is to enjoy a fair return on its property. Under present-day conditions it is impractical to predict the precise degree or trend of tax changes. For the purpose of this proceeding, the currently effective federal income tax rate of 47% has been used.

The request of applicant's president for a return as high as 7% to 7½% is not deemed reasonable in this case because it ignores the practical economics of the situation as well as the service being rendered. Applicant's proposed rate levels, which it maintains will yield 5.8% on its undepreciated rate base and 6.5% on its depreciated rate base, call for an increase of as much as 125% for the small summer cabin customer and as much as 100% for the large user in the terminal block of the quantity rates. In view of the testimony in the proceeding, such increases are greater than warranted at this time.

The Commission finds:

1. That the staff's undepreciated rate base of \$380,000 for 1951 should be augmented by \$6,170 to allow for \$15,150 of capital additions weighted for estimated operative dates and that a comparable depreciated base for the same period is \$313,320.

2. That after giving due consideration to the company's claims, the staff's expense estimate of \$19,050 for operating expenses should be augmented by \$300 for additional pumping, \$250 for Coon Spring supply, \$500 rate case amortization, and \$340 to prorate cost of abandoned well, (which sums are considered an adequate additional allowance under existing operating conditions.)

3. That the allowance for depreciation annuity of \$4,100 should be augmented by \$3,640, which is equivalent to 5% interest on the depreciation reserve when computing return on the basis of a depreciated rate base.

4. That the allowance for taxes of \$23,860 under applicant's proposed rates should be reduced to \$21,100, based on the net revenue increase to be allowed herein, using a 47% federal income tax rate and a \$63,000 interest credit.

5. That an increase of \$27,000 in annual revenue at the 1951 level of business is justified, resulting in a return of 6.9% on a depreciated base which is fair and reasonable.

6. That the increases in rates and charges authorized by the order herein are justified and present rates in so far as they differ from the authorized rates are unjust and unreasonable.

#### Comparison of Present, Proposed, and Authorized Rates

A comparison of the present, proposed and authorized rates follows:

	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
<u>Minimum Charge for 5/8-inch x 3/4-inch meter</u>			
Seasonal	\$12.00 (8 months)	\$27.00 per year	\$20.00 per year
Regular	1.50 per month	2.25 per month	2.00 per month
<u>Quantity Rates - Monthly</u>			
First 500 cu. ft.	\$1.50	500 cu. ft. \$2.25	(300 cu. ft. \$1.67 (400 cu. ft. 2.00
Next 1,000 per 100 at 0.20		1,500 per 100 at 0.35	(1,700 per 100 at 0.35 (1,600 per 100 at 0.35
Next 3,500 per 100 at 0.15		3,000 per 100 at 0.30	2,000 per 100 at 0.30
Next 5,000 per 100 at 0.12		5,000 per 100 at 0.25	3,000 per 100 at 0.25
Next -	-	-	5,000 per 100 at 0.20
Over 10,000 per 100 at 0.10		10,000 per 100 at 0.20	12,000 per 100 at 0.17

Under the authorized rates applicant's proposed seasonal minimum is being reduced to \$20 but the water included in the minimum charge is being reduced to 300 cu. ft. per month. The seasonal rate is being opened to any regular monthly customers who desire to pay their bill annually in advance to qualify for the lower equivalent monthly minimum. Also, the annual minimum payment will be due January 1, and will cover the 12 months' calendar year. For the seasonal customers who have paid \$12 to cover eight consecutive months during the year 1951 the company shall bill the minimum for the months of September, 1951, through December, 1951, on the basis of one-third of the applicable annual minimum rate, and will credit each customer with any prepaid portion of this period on the basis of \$1.50 per month. Such prorated annual minimum, less credits, if any, shall be

due and payable on or before September 1, 1951. Thereafter the annual minimum will be due January 1 of each year, as on the present rates. The minimum charge for regular monthly users is being reduced from the company's proposal to \$2 per month but the quantity of water included in the minimum charge is being reduced to 400 cu. ft. A lower terminal rate than proposed by applicant is also being provided.

Fire hydrant rates are not being increased by this order because the company indicated that until improvements are made it desired to continue its past practice of charging at one-half the filed rate. Applicant should refile its fire hydrant schedule to show its present practice in this matter.

The Commission concludes:

1. That applicant's request for the increase of rates to be made effective as of the date on which it filed its application, or as of January 1, 1951, is not justified and the increased rates will not become effective prior to the date specified in the order herein.
2. That applicant's request for allowance for highway relocation expense be denied at this time because of the indefiniteness of the company's final net liability in this matter.
3. That in granting the increase in revenues provided herein the company will be expected to proceed promptly with improvements designated by it in its brief filed June 18, 1951.
4. That additional 100,000-gallon storage be provided in the Wildwood section, in the event the proposed new booster pump fails to supply sufficient water to produce adequate service to the consumers in this area.
5. That an order be issued authorizing the rates set forth in Exhibit A herein.

O R D E R

It is therefore ordered that:

Citizens Utilities Company of California is authorized to file in quadruplicate with this Commission, after the effective date



of this order, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto, and after not less than one (1) day's notice to the Commission and to the public, to make said rates effective for service rendered on and after August 16, 1951.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 24<sup>th</sup> day of July, 1951.

A. J. [Signature]  
James J. [Signature]  
Harold [Signature]  
[Signature]  
[Signature]  
Commissioners.

EXHIBIT A  
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## Schedule No. 1

METERED WATER SERVICE - ANNUAL BASISAPPLICABILITY

This schedule of rates is applicable to seasonal water customers and such regular monthly water customers who elect to pay the minimum annually in advance.

TERRITORY

In that portion of the San Lorenzo Valley, Santa Cruz County, lying generally under the 950-foot contour in the Redwood Grove area; the 700-foot contour in the Boulder Creek and Brookdale areas; the 400-foot contour in the Ben Lomond area; and the 325-foot contour south of Ben Lomond, as set forth in Decision No. 41355 at the California Public Utilities Commission.

RATES

	Per Meter Per Year
Annual Minimum Charge: <i>delivered</i>	
For 5/8 x 3/4-inch meter .....	\$20.00
For 3/4-inch meter .....	27.00
For 1-inch meter .....	40.00
For 1 1/2-inch meter .....	60.00
For 2-inch meter .....	95.00

Quantity Charge:	Per Meter Per Month
First 300 cubic feet or less .....	\$1.67
Next 1,700 cu. ft., per 100 cu. ft. ....	.35
Next 2,000 cu. ft., per 100 cu. ft. ....	.30
Next 3,000 cu. ft., per 100 cu. ft. ....	.25
Next 5,000 cu. ft., per 100 cu. ft. ....	.20
Over 12,000 cu. ft., per 100 cu. ft. ....	.17

SPECIAL CONDITIONS

1. The Annual Minimum Charge will entitle the customer to the quantity of water monthly which 1/12 of the annual minimum charge will purchase at the Quantity Rates.
2. The annual minimum will be due and payable on January 1 each year to cover the 12 calendar months.

EXHIBIT A  
Page 2 of 2

## Schedule No. 2

METERED WATER SERVICE - MONTHLY BASISAPPLICABILITY

This schedule of rates is applicable to regular monthly water customers not electing to pay the annual minimum in advance.

TERRITORY

In that portion of the San Lorenzo Valley, Santa Cruz County, lying generally under the 950-foot contour in the Redwood Grove area; the 700-foot contour in the Boulder Creek and Brookdale areas; the 400-foot contour in the Ben Lomond area; and the 325-foot contour south of Ben Lomond, as set forth in Decision No. 41355 at the California Public Utilities Commission.

RATES

Quantity Charge:		Per Meter Per Month
First	400 cubic feet or less .....	\$2.00
Next	1,600 cu. ft., per 100 cu. ft. ....	.35
Next	2,000 cu. ft., per 100 cu. ft. ....	.30
Next	3,000 cu. ft., per 100 cu. ft. ....	.25
Next	5,000 cu. ft., per 100 cu. ft. ....	.20
Over	12,000 cu. ft., per 100 cu. ft. ....	.17
Minimum Charge:		
For	5/8 x 3/4-inch meter .....	\$2.00
For	3/4-inch meter .....	2.75
For	1-inch meter .....	3.50
For	1 1/2-inch meter .....	5.25
For	2-inch meter .....	8.00

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