

Decision No. 4861S**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 - Ben )  
 Lomond - Brookdale, Santa Cruz )  
 County, California. )

Application No. 33581

Orrick, Dahlquist, Neff & Herrington, by  
George H. Johnston and Warren A. Palmer,  
 for applicant.  
 San Lorenzo Valley Chamber of Commerce,  
 Ben Lomond Recreational District and  
 San Lorenzo Valley Business and Profes-  
 sional Women's Club, by Alice Earl Wilder,  
 interested parties.  
 Larita Woods Mutual Water Company, by  
A. W. Archer, protestant.  
Harold J. McCarthy, John F. Donovan and  
Carol Coffey, for the Commission staff.

INTERIM OPINION

By the above-entitled application, filed July 17, 1952,  
 and as amended on July 29 and December 19, 1952, Citizens Utilities  
 Company of California, a California corporation, seeks an order of  
 this Commission authorizing increases in water rates on its system  
 in Santa Cruz County.

This application is one of five filed by this company on  
 the same date for each of its five separate water systems in  
 California. The matters were consolidated for purpose of hearing  
 before Commissioner Peter E. Mitchell and Examiner F. Everett  
 Emerson during the month of February, 1953. Twelve days of hearings  
 were had, 53 witnesses were heard and 35 exhibits were received.  
 The matters were submitted on February 27, 1953. However applicant

did not submit Exhibit No. 16 until April 7, 1953. The twelve volumes of reporters' transcripts of the proceeding total 1,386 pages.

#### Applicant's Request

Applicant's instant request is basically that this Commission establish rates for water service which will enable applicant to realize a 6.9 per cent rate of return on its rate base. Applicant proposes specific rates which it claims will yield such a return. These are compared with the rates presently in effect by the following tabulation wherein typical monthly billings by rate blocks are set forth.

Cubic Feet	Annual Rates			Monthly Rates		
	Present	Proposed	% Increase	Present	Proposed	% Increase
300	\$ 1.67	\$ 2.25	34.7%	\$ 2.00	\$ 2.50	25%
400	2.02	2.70	33.7	2.00	2.50	25
600	2.72	3.72	36.7	2.70	3.48	28.9
1,000	4.12	5.68	37.9	4.10	5.44	32.7
1,500	5.87	8.13	38.5	5.85	7.89	34.9
2,000	7.62	10.58	38.9	7.60	10.34	36.0
3,000	10.62	14.58	37.3	10.60	14.34	30.6
5,000	16.12	21.88	35.7	16.10	21.64	34.4
10,000	27.12	36.28	33.8	27.10	36.04	33.0

In addition to its regular domestic and commercial customers, applicant also serves a mutual water company at metered rates. Applicant provides fire hydrant service to the Boulder Creek and Ben Lomond fire districts at flat rates for hydrant rental. No increase in fire hydrant rates is proposed.

#### Applicant's Operations

Applicant is a wholly owned subsidiary of Citizens Utilities Company, a Delaware corporation whose headquarters are in Greenwich, Connecticut, an operating and holding company which operates or controls gas, telephone, electric or water utilities in about 200 communities in the United States. Applicant furnishes

telephone service in four separate areas and supplies water service in five separate areas in California. As of the end of 1952 it served approximately 12,000 water service connections, about 2,100 of which are in its Boulder Creek District.

The Boulder Creek District of applicant comprises the unincorporated communities of Boulder Creek, Brookdale and Ben Lomond, and adjacent territory generally lying below the 700-foot contour level, in Santa Cruz County.

This district's major source of water is obtained from the tributaries of the San Lorenzo River. About 13 per cent of the water delivered to customers is obtained by purchase from H. D. Coon in the Glen Arbor area at the southerly end of the system. Peak month delivery approaches 2,011,000 cubic feet while the winter minimum is about 500,000 cubic feet. System storage aggregates approximately 324,300 cubic feet.

Distribution mains vary in size from 3/4 inch to 8 inches in nominal diameter and total about 300,000 feet in length. The great majority of lines are small and many are considerably undersized. Four booster pumps are used on the distribution system and range in capacity from 150 gpm to 350 gpm.

#### Summary of Results of Operations

Applicant and the Commission staff presented analyses of results of operations of this system which are summarized in the

following tabulation. Elements thereof are more fully analyzed or explained in succeeding paragraphs.

Year 1951

Item	Company Recorded	Adjusted by Applicant <sup>a</sup>	CPUC Staff Pro Forma <sup>b</sup>
Operating Revenue	\$ 49,828	\$ 49,828	\$ 65,280
Operating Expenses	36,727	39,178	50,487
Net Revenue	13,101	10,650	14,800
Rate Base (Depr.)	309,900	311,415	294,100
Rate of Return	4.23%	3.42%	5.03%

a. Adjusted to current income tax rates.

b. Pro forma signifies that all known expense influences occurring during the calendar year 1952 are reflected for the full year 1951.

Year 1952 Estimated

Item	Present Rates		Requested Rates <sup>c</sup>
	Applicant	CPUC Staff	CPUC Staff
Operating Revenue	\$ 64,978	\$ 66,850	\$ 86,800
Operating Expenses			
Before Taxes and Depr.	23,545	23,840	23,840
Taxes	15,742	18,400	29,200
Depreciation	10,678	10,730	10,730
Total Oper. Expenses	49,965	52,970	63,770
Net Revenue	15,013	13,900	23,030
Rate Base (Depr.)	321,344	303,300	303,300
Rate of Return	4.67%	4.58%	7.59%

c. As contained in application as amended.

Year 1953 Estimated

Item	Applicant	
	Present Rates	Requested Rates <sup>d</sup>
Operating Revenue	\$ 65,000	\$ 87,401
Operating Expenses		
Before Taxes and Depr.	26,825	26,825
Taxes	15,058	27,164
Depreciation	11,036	11,036
Total Oper. Expenses	52,919	65,025
Net Revenue	12,081	22,376
Rate Base (Depr.)	324,284	324,284
Rate of Return	3.73%	6.90%

d. As contained in Exhibit No. 3.

In addition to the district results of operations, above summarized, evidence respecting applicant's over-all water department operations was presented. For the year 1951, recorded amounts indicated a department-wide rate of return of 6.74 per cent. For the year 1952, present rates were estimated by the staff to yield a rate of return of 3.85 per cent on a department-wide basis. The staff also estimated that if the rates requested for each district, as contained in the five applications as amended, had been in effect for the full year 1952, the comparable rate of return would have been 7.47 per cent.

#### Rate Base

The rate bases, set forth for the years 1951 and 1952 in the above summary, differ primarily in the treatment accorded landed fixed capital. Applicant's fixed capital accounts stem from opening entries from the year 1927 when, upon this Commission's authorization, applicant acquired certain of the present properties.<sup>1/</sup> After acquisition, applicant restated its books to meet the Commission's findings and directives relative to charges to primary accounts<sup>2/</sup> and it now urges acceptance of such book figures in the determination of a rate base upon which it is entitled to earn a reasonable return.

In presenting its study of fixed capital, the staff assumed that the restatement of books in 1929 placed in the land account the market value of lands resulting from an appraisal of

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<sup>1/</sup> Decision No. 19215 in Application No. 14024, issued January 5, 1928 (31 CRC 32).

<sup>2/</sup> Letter to A. F. Christie, File No. 601-3, dated September 5, 1929, part of this record by reference.

the properties. In following this Commission's policy of considering original costs for rate-making purposes, the staff undertook an adjustment of the land account in order to place it on an estimated original cost basis. The staff witness testified that there is now no means of making a direct comparison of original costs with the early market values of lands which he assumed were placed upon the books but that he had developed a calculation of an estimated differential between the two by which he adjusted the book figures. The effect of the staff adjustment is to reduce the 1951 landed fixed capital of this system from \$54,958 to \$41,580, a reduction of \$13,378.

A review of the statement of accounts showing distribution to primary accounts in 1929<sup>3/</sup> reveals that a number of prorations were made at that time, including adjustment of the land account as well as adjustments of other accounts. In general, the prorations were a downward adjustment of appraised values.

Applicant's position in respect to this matter is that (1) the book figures were established by the Commission itself after careful analysis and study, (2) the book figures have been used consistently at all times since 1929; (3) such figures have been accepted by the Commission heretofore, without adjustment, in all prior rate proceedings, (4) in the absence of any adequate cost data respecting original cost, the book figures are more reliable evidence of reasonable cost and (5) adoption of the book cost of lands is consistent with the use of book costs for the balance of plant in service.

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<sup>3/</sup> Supra.

This Commission has used applicant's book figures as bases for its orders authorizing the issuance of securities.

It appears reasonable, for the purpose of this proceeding, to adopt the book costs of lands, as urged by applicant, and the same will be used herein for rate base determination. The reasonable average depreciated rate bases adopted are \$317,000 for the year 1952 and \$321,000 for the estimated year 1953, the latter fully including applicant's construction program, as set forth in Exhibit No. 2-A in this proceeding, for the year 1953.

#### Revenues and Expenses

Gross revenue figures for the year 1952 were estimates presented by applicant and the staff. They differ because of the respective methods of development, applicant having used billing data while the staff used a count of meter book accounts. The difference was not fully resolved during the course of the hearing. In view of the evidence, however, we shall accept applicant's estimate of \$64,978 for gross revenues in 1952.

The respective estimates of 1952 operating expenses differ primarily in calculation of taxes based on income. We shall adopt, as total operating expenses, the sum of \$49,965 for the year 1952, thereby including income taxes based upon the above-adopted revenues.

#### Net Revenue and Rate of Return

Net revenue of \$15,013 resulting from the above-adopted gross revenues and total operating expenses, when related to the depreciated rate base hereinabove found to be reasonable, indicates a rate of return of 4.74 per cent. ✓

A witness called on behalf of applicant testified that in his opinion revenues should be established to produce a rate of

return between 7.0 and 7.2 per cent at this time, in order to yield over a period of years an actual return of 6.9 per cent on a depreciated rate base.

Participation by Interested Parties and Protestant

In the main, parties of record opposed applicant's requested rate increase on the grounds that past and present service has been inadequate and that customer needs have not been reasonably met. In short, their position is that the value of the service supplied is not commensurate with the rates charged.

Although applicant maintains no file of service complaints, the record in this proceeding indicates that numerous complaints respecting lack of water and low pressure have been made by customers. Such complaints, in some instances, are regularly recurring and are of long standing.

Persons who have been unsuccessful in obtaining service from applicant appeared at the hearing and informed the Commission of their plight. Applicant has denied them service on the premise that the elevations at which these prospective customers reside lie above the elevation which determines the boundaries of its service area. In a 1948 decision<sup>4/</sup> this Commission defined the area in which applicant was obligated to serve the public. The decision stands without modification. Applicant seemingly has interpreted such decision so as to permit it to refuse service to prospective customers whose properties may lie above applicant's present mains. The present proceeding, however, is not one in which the respective contentions of applicant and the prospective customers should be resolved. A determination of the respective merits thereof is properly the subject of an investigative proceeding.

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<sup>4/</sup> Decision No. 41355 in Application No. 25401 and Case No. 4906, issued March 23, 1948.



Conclusions

Applicant's service is supplied to many permanent residents. However, the area is still predominantly one in which resort operations abound and one in which nearly one half of the property owners occupy their properties only during the summer vacation period and over week ends and holidays. The effect of such type of occupancy is apparent from the deliveries of water previously mentioned, which show that peak month deliveries are in excess of four times winter deliveries. The demands for water during vacation months, holidays and week ends sorely tax applicant's present sources of supply and, in addition, tend to make both fixed capital costs for improvements and operating costs somewhat higher than those found on systems where residential occupancy and water usage is more uniform. Nevertheless, this utility has an obligation reasonably to meet the needs of its patrons. Customers without water are not having their needs reasonably met.

Applicant operates this system without a permit from the Department of Public Health and was placed upon notice<sup>5/</sup> by said department on June 13, 1952, that the department's analyses of the system's water had indicated frequent coliform contamination and that State law requires that applicant have a permit from the State Board of Public Health. Applicant was instructed to submit a request for a permit together with plans for improvement of the system and its operation. As of March 4, 1953, applicant had neither submitted its plans nor had it applied for the required permit.

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<sup>5/</sup> Exhibit No. 35 in this proceeding.

Applicant's service has been deficient in a number of areas. The evidence indicates that it serves as many as 100 consumers from one section of 2-inch main in the neighborhood of Forest Pool where such large quantities of water are used as at times to leave other customers completely without water. Applicant's local manager recommended replacement of the main with 4-inch pipe. Instead of such replacement applicant's engineer in Greenwich, Connecticut, ordered the installation of a so-called "temporary" booster pump. This engineer testified that such pump might be used for several years before a permanent solution to the problem might be undertaken. In the meantime applicant would, by an attempted mutual agreement with the pool operator, endeavor to curtail usage by the pool. Such a situation, in our opinion, does not solve the problem of deficiency.

The evidence is clear that the Ben Lomond area has been receiving inferior service over a considerable period of time. In several instances pressures as low as 5 psi are of record. During the course of this proceeding applicant improved pressures by resetting certain regulating valves controlling flow from its storage tanks. Nothing in the present record indicates to us that applicant could not have made the same improvements long before they were actually made. We conclude that applicant, in permitting such low pressures to exist, has been remiss in meeting its utility obligations.

On the last day of hearing, applicant's vice-president testified that applicant had recently contracted for all of the surplus water available to the Lorenzo Water Company, a contiguous utility system serving portions of the community of Boulder Creek. He further testified that applicant was planning on making several interconnections between the two systems and developing all of the

water available in the two creeks which supply the Lorenzo System. We take official notice that applicant and the owners of the Lorenzo System filed Application No. 34269 with this Commission on April 17, 1953, by which authorization is sought to transfer the entire Lorenzo System to applicant.

Applicant's present rates were made effective on August 16, 1951. Such rates represented an average increase of 67 per cent over those previously charged. Water consumption dropped approximately 15 per cent following such increase in charges and to date the subsequent loss in revenue has not been fully recouped. Applicant's present request would increase water charges by approximately another 30 per cent. Testimony in this proceeding convinces us that applicant is approaching a point where charges for water will so closely approach the limits of the customers' ability to pay that customers will develop their own sources of supply. Apparently some already have done so.

Complaints respecting adequacy of service are not new to this system. They have been of concern to this Commission as well as to applicant's customers over a period of years and we have heretofore directed applicant to make improvements. In 1948 we admonished applicant that the solution of the problems of supply and service was its duty and obligation. We further expressed our opinion that it should demonstrate its willingness and ability to provide a class of service which might warrant higher rates.<sup>6/</sup> The record in this proceeding indicates to us that applicant's over-all attitude toward the providing of adequate service is little, if any, improved.

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<sup>6/</sup> Decision No. 41355, issued March 23, 1948.

Applicant should be aware that this Commission has on numerous occasions set forth its opinion that for the purpose of rate fixing it is this Commission's practice to determine the need for additional earnings upon the consideration of numerous factors. Among such factors are the characteristics of the territory served, adequacy of the service, growth factor, comparative rate levels, rate history, value of the service, diversification of revenues, public relations, management, financial policies, performance of reasonable construction requirements, prevailing interest rates, trend of rate of return, past financing success and future outlook for the utility, over-all cost of money and other related economic conditions. No single one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates or rate of return. All pertinent factors are considered.

Applicant has been afforded an improvement in its over-all earning position by the increased rates authorized in its four other water districts. Applicant also is entitled to some improvement in the earnings received from this district. However, in the face of the inadequate service being rendered, we are of the opinion that authorizing an increase of rates of the magnitude requested by applicant would neither be fair to applicant's patrons nor justified by the value of the service being rendered. In the light of the entire record in this proceeding, we conclude that a somewhat lesser increase should be authorized by the issuance of an interim order.

This proceeding will be reopened for further hearings and such reopened proceeding will be consolidated with a Commission investigation of the adequacy of service and a determination as to whether the utility is fulfilling its obligations to furnish service within the area heretofore defined in the 1948 decision

previously mentioned. In such further hearings consideration will be given to the establishment of such permanent rate structure as may be warranted in the light of such service improvement program as may be justified by the record in the further hearings.

The interim rates hereinafter authorized should produce an annual gross revenue of approximately \$70,250 which, after allowing for reasonable total operating expenses of \$55,750, will produce a net revenue of \$14,500 and yield a rate of return of approximately  $4\frac{1}{2}$  per cent on the 1953 rate base hereinabove found to be reasonable.

In view of applicant's expressed intention to adopt the straight-line remaining life method of depreciation accounting, accruals by such method will be ordered.

Applicant's motion to strike from the record a letter from H. D. Coon to this Commission is hereby denied.

#### INTERIM ORDER

Application as above-entitled having been filed, hearing thereon having been held and the Commission being of the above-expressed opinion in connection therewith,

IT IS HEREBY FOUND AS A FACT that the increases in water rates and charges hereinafter authorized are justified on an interim basis pending further Commission order; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, the schedule of rates set forth in Exhibit A attached to this order and, after not less than five days' notice to the public and to the Commission, to make said rates effective for service rendered on and after June 16, 1953.
2. Application No. 33581 is hereby reopened for further hearing before such commissioner or

examiner and at such time, date and place as may hereafter be designated.

3. Effective not later than July 1, 1953, applicant shall base future accruals to the reserve for depreciation upon a spreading of the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; further, applicant shall review such accruals when major changes in plant composition occur and for each plant account at intervals of not more than four years. Results of these reviews shall be submitted to this Commission.
4. Applicant shall immediately undertake a detailed study of the improvements necessary to render adequate service throughout its entire service area as set forth in this Commission's Decision No. 41355, issued March 23, 1948, and shall file a written report with this Commission, within sixty days after the effective date of this order, setting forth the results of said study including the estimated costs of the necessary improvements, the effect on its operations and the programmed completion dates for accomplishment of such improvements.
5. Applicant shall immediately establish and thereafter maintain in its district office a system for filing and indexing all consumer complaints

received, whether verbal or written, together with a statement of the action taken by applicant in disposing of each complaint.

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

Dated at San Francisco California, this 19th day of May, 1953.

[Signature]  
President.  
Justus J. Cottrell  
Harold P. Hule  
[Signature]  
[Signature]  
Commissioners.

EXHIBIT A  
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Schedule No. 1

GENERAL METERED SERVICE OPTION 1

APPLICABILITY

Applicable to permanent or seasonal consumers.

TERRITORY

In certain portions of San Lorenzo Valley, Santa Cruz County, the upper limits of which lie approximately along the 700-foot contour in the Boulder Creek, Brookdale and Ben Lomond areas and above the 700-foot contour in the Redwood Grove area all as set forth in Cal. P.U.C. Decision No. 41355.

RATES

Monthly Quantity Rates:

	<u>Per Meter Per Month</u>
First 400 cu.ft. included in minimum charge.	
Next 1,600 cu.ft., per 100 cu.ft. ....	\$ .40
Next 2,000 cu.ft., per 100 cu.ft. ....	.35
Next 3,000 cu.ft., per 100 cu.ft. ....	.30
Next 5,000 cu.ft., per 100 cu.ft. ....	.25
Over 12,000 cu.ft., per 100 cu.ft. ....	.17

Annual Minimum Charge:

	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter .....	\$ 22.00
For 3/4-inch meter .....	30.00
For 1-inch meter .....	45.00
For 1 1/2-inch meter .....	70.00
For 2-inch meter .....	110.00

The Annual Minimum Charge will entitle the customer to the quantity of water which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The above annual minimum charges apply to service during the calendar year and are due on January 1.

2. Charges for water used in excess of the monthly allowance under the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.



EXHIBIT A  
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Schedule No. 2

GENERAL METERED SERVICE OPTION 2

APPLICABILITY

Applicable to consumers whose permanency of residence or business is established as set forth in Special Condition, below.

TERRITORY

In certain portions of San Lorenzo Valley, Santa Cruz County, the upper limits of which lie approximately along the 700-foot contour in the Boulder Creek, Brookdale and Ben Lomond areas and above the 700-foot contour in the Redwood Grove area all as set forth in Cal. P.U.C. Decision No. 41355.

RATES

Monthly Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. included in the minimum charge.	
Next 1,500 cu.ft., per 100 cu.ft. ....	\$ .40
Next 2,000 cu.ft., per 100 cu.ft. ....	.35
Next 3,000 cu.ft., per 100 cu.ft. ....	.30
Next 5,000 cu.ft., per 100 cu.ft. ....	.25
Over 12,000 cu.ft., per 100 cu.ft. ....	.17

Annual Minimum Charge:

	<u>Per Meter</u> <u>Per Year</u>
For 5/8 x 3/4-inch meter .....	\$ 26.40
For 3/4-inch meter .....	36.00
For 1-inch meter .....	48.00
For 1 1/2-inch meter .....	84.00
For 2-inch meter .....	120.00

The Annual Minimum Charge will entitle the consumer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITION

The above annual minimum charges apply to service during the calendar year and are due on January 1. A customer who has established his permanency by having paid for service during the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to one twelfth of the annual minimum charge, ~~per month~~.

*A. J. M.*