

ORIGINALDecision No. 48619

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) Application No. 33580
for its Water System Serving the)
City of North Sacramento and)
Adjacent Territory.)

Orrick, Dahlquist, Neff & Herrington, by
George H. Johnston and Warren A. Palmer,
for applicant.
City of North Sacramento, by Raymond McClure,
City Attorney, protestant.
Norwood Altos Acres Improvement Club, by
Robert M. Schabert, interested party;
C. E. Platner, in propria persona,
interested party.
Harold J. McCarthy, John F. Donovan and
Carol Coffey, for the Commission staff.

O P I N I O N

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

This application is one of five filed by applicant on the same date for each of its five separate water systems in California. The matters were consolidated for purposes 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 received. Submission of the matter occurred on February 27, 1953. However, applicant did not submit Exhibit No. 16 until April 7, 1953.

Applicant's Request

Applicant's request in the instant application is basically that this Commission authorize 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 produce the return which it desires.

Applicant's present rates comprise two schedules, one for a winter season of six months commencing October 1 and one for a six months' summer season commencing April 1. These were authorized by this Commission's Decision No. 38383 in Case No. 4746, issued November 6, 1945. Applicant proposes to make effective only one rate schedule. The following tabulation is a comparison of charges, under present and requested rates, for typical residential and commercial water consumptions.

Monthly Bill, 5/8 x 3/4-inch Meter

<u>Cubic Feet</u>	<u>Present Rates</u>		<u>Requested Rates</u>
	<u>Winter</u>	<u>Summer</u>	
0-600	\$1.25	\$1.25	\$1.95
700	1.35	1.25	2.06
800	1.45	1.25	2.17
900	1.55	1.25	2.28
1,000	1.65	1.25	2.39
1,500	2.15	1.75	2.94
2,000	2.65	2.25	3.49
2,500	3.15	2.75	4.04

Applicant's Operations

Applicant is a wholly owned subsidiary of Citizens Utilities Company, a Delaware corporation whose headquarters are in Greenwich, Connecticut. The parent corporation either controls or operates gas, electric, telephone 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 5,650 of which are on its North Sacramento System.

All of the water for this system is obtained from 13 deep wells whose pump capacities vary between 350 gpm and 500 gpm. Each pumping station has a pressure tank and the system as a whole has but one elevated storage tank of 60,000 gallons' capacity. Minimum deliveries of about 4 million cubic feet per month occur during the winter months while the summer monthly peak delivery approximates 17 million cubic feet of water. As of the end of 1952 the distribution mains had a total length of about 314,000 feet of pipe. Pipe sizes range between 1 inch and 8 inches in nominal diameter, a considerable proportion (36 per cent) of the system having mains smaller than 4 inches in diameter.

Summary of North Sacramento 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 explained or discussed in succeeding paragraphs.

Year 1951

Item	Company Recorded	Adjusted by Applicant ^a	CPUC Staff Pro Forma
Operating Revenue	\$143,505	\$143,505	\$143,505
Operating Expenses	93,984	108,505	119,244
Net Revenue	49,521	34,998	24,300
Rate Base (Depr.)	608,700	612,472	609,900
Rate of Return	8.14%	5.71%	3.98%

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 ^c
	Applicant ^d	CPUC Staff ^e	CPUC Staff ^e
Operating Revenue	\$156,300	\$157,930	\$215,300
Operating Expenses			
Before Taxes & Depr.	77,054	76,175	76,175
Taxes	30,928	35,200	66,200
Depreciation	25,534	25,203	25,203
Total Oper. Exps.	133,516	136,578	167,578
Net Revenue	22,784	21,400 ^f	47,700 ^f
Rate Base (Depr.)	691,902	682,600	682,600
Rate of Return	3.29%	3.14%	6.99%

c. As contained in application as amended.

d. Estimated on basis of 11 months actual.

e. Estimated on basis of 9 months actual.

f. Rounded figure.

Year 1953 Estimated

Item	Applicant	
	Present Rates	Requested Rates ^g
Operating Revenue	\$164,922	\$226,808
Operating Expenses		
Before Taxes and Depr.	78,525	78,525
Taxes	33,368	66,675
Depreciation	28,203	28,203
Total Operating Expenses	140,096	173,403
Net Revenue	24,826	53,405
Rate Base (Depr.)	773,990	773,990
Rate of Return	3.21%	6.90%

g. 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 application 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 year 1951 in the above summary differ primarily in the treatment accorded landed fixed capital. Applicant's fixed capital accounts stem from the year 1928 when, upon this Commission's authorization, applicant acquired the properties.^{1/} Shortly after acquisition, applicant restated its books to meet the Commission's findings relative to charges to primary accounts.^{2/} Applicant's rate base in the instant proceeding is predicated on such book figures. In presenting its study of fixed capital the staff made an adjustment which had the effect of reducing applicant's recorded fixed capital by an amount of \$3,500. In view of the record in this proceeding we shall use book figures for rate base determination.

The difference in 1952 rate bases results from the continuing staff adjustment mentioned above, the failure of applicant to fully account for plant retirements, and a difference in the treatment accorded consumers' advances for construction. In this latter respect it is our opinion that the staff has more accurately accounted for such advances.

In view of the evidence we adopt a depreciated rate base of \$686,000 for the year 1952 and find such rate base to be reasonable.

Applicant's rate base for the estimated year 1953 is predicated upon its 1952 rate base with its proposed 1953 construction budget added thereto. As in the development of the 1952 rate base, applicant did not fully account for consumers' advances in its 1953 rate base and it gave no consideration whatsoever to an advance of some \$13,750 for construction in Richardson Village Unit No. 5.

1/ Decision No. 19777 in Application No. 14475, issued May 18, 1928.

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

In view of the evidence we adopt as a reasonable estimate of the average depreciated rate base for the year 1953 the sum of \$752,000.

Revenues and Expenses

For the year 1952 applicant and the staff revenue estimates differ by less than 1 per cent, a difference well within the limits of ordinary accuracy in estimating. The difference in expense estimates arises, primarily, from the staff having attempted to normalize the year's operations by reflecting increased electric power costs throughout the year and by using averages of certain expenses which ordinarily fluctuate widely from year to year. In view of the evidence we adopt as a reasonable estimate of normalized net revenue for the year 1952 the sum of \$22,000.

Rate of Return

Relating the above-adopted net revenue to the average rate base hereinabove found to be reasonable for the year 1952 indicates a rate of return of 3.21 per cent. Such a return cannot be said to be reasonable for this utility's operations in North Sacramento. Applicant is entitled to relief in the form of increased revenues.

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

Protestant's Position

The City of North Sacramento, through its City Attorney and City Manager, appeared before the Commission to oppose any increases in water rates until such time as improvement is made in the water system, particularly with respect to fire protection service. In addition, witnesses called by the city brought a

number of low pressure conditions and other deficient service matters to the attention of the Commission.

With respect to water for fire fighting purposes, protestant desires the availability of water flows approximating 3,000 gpm in its principal mercantile district so that the city may enjoy lower fire insurance rates. Two fire districts outside the city limits desire similar service. Applicant's position in these respects is that it will supply water for fire fighting purposes to the extent that water is available in the course of its normal system operations but that where increased facilities are needed or are to be installed solely for fire protection service, the added costs of providing the facilities, over and above those needed for normal utility operations, should be borne by the city or fire district desiring them. Applicant indicated in writing, however, that it was ready and willing to cooperate in the matter and that it and the fire protection agencies would mutually undertake a study and negotiations looking towards an equitable sharing of the added costs. Applicant now charges for fire hydrant service but has no rate schedule on file for such service. The order herein will provide for uniform charges at reasonable rates.

Applicant's witness alleged that each and every low pressure condition affecting its residential and commercial customers would be improved and the complaints regarding the same satisfied by the completion of its 1953 construction program as augmented by additional work to be performed to meet certain so-called "local" deficiencies. With respect to complaints regarding sand in the water, however, applicant had little to offer as a matter of improvement. In this latter connection, we are aware that adequate and properly functioning devices for the removal of sand are regularly used by other utilities. Applicant has none. It will be required to remedy this situation.

Conclusions

The evidence in this proceeding does not warrant a finding that a rate of return of 6.9 per cent, as claimed by applicant, is fair and reasonable. Upon the record before us, we do not see any reason for authorizing a return substantially in excess of 6 per cent. Giving due recognition, however, to the declining trend in rate of return with which this company may be faced, we are of the opinion and so find that, upon the basis of the estimated average year 1953 before us in this proceeding, annual gross revenues of approximately \$214,000 will yield a net revenue of \$47,750 which, when applied to a depreciated rate base of \$752,000, resulting in an indicated rate of return of 6.35 per cent, will provide applicant with a reasonable return.

Applicant will be required to complete its 1953 construction program as augmented by the work necessary to correct service deficiencies of record in this proceeding.

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 the testimony of representatives of the fire districts is hereby denied.

Authorized Rates

The rates hereinafter authorized will increase applicant's gross revenues by approximately \$56,500 on an annual basis.

Typical residential and commercial billings under the new rates will be as follows:

For 5/8 x 3/4-inch Meter

<u>Cubic Feet</u>	<u>Monthly Bill</u>
0-700	\$1.75
800	1.89
900	2.03
1,000 (average usage)	2.17
1,500	2.87
2,000	3.57
3,000	4.57
5,000	6.57
10,000	9.57

O R D E R

Citizens Utilities Company of California having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in North Sacramento and adjacent territory in Sacramento County, public hearing thereon having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized are justified and that the existing rates, in so far as they differ from those hereinafter authorized, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, in conformance with General Order No. 96, the schedules of rates set forth in Exhibit A attached to this order and, after not less than five days' notice to the Commission and to the public, to make said rates effective for service rendered on and after June 16, 1953.

IT IS HEREBY FURTHER ORDERED as follows:

1. Within sixty days from and after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with General Order No. 96, rules governing customer relations revised to reflect present-day operating practices, together with a tariff service area map and with current forms used in connection with customer service, and shall thenceforth maintain in its district office a complete and accurate set of tariffs for public inspection.
2. Within ninety days from and after the effective date of this order, applicant shall file four copies of a comprehensive map, drawn to an indicated scale of not smaller than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served and the location of the various properties of applicant.
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 three years. Results of these reviews shall be submitted to this Commission.
4. On or before December 31, 1953 applicant shall have completed the construction program which it has set forth in this proceeding and shall report to this Commission by not later than February 1, 1954 the details, including gross expenditures, retirements and resulting net additions, of its accomplishment of said program.
5. Applicant shall immediately undertake an investigation looking toward elimination of sand from its water deliveries to customers and shall, within sixty days from and after the effective date of this order, file a written report with this Commission setting forth a proposed program by which such sand elimination may be accomplished; further, said report shall include (1) the capital cost of installing sand traps or other devices determined to be suitable, (2) the annual reduction in maintenance and operating expenses estimated to result from elimination of sand from the system and (3) a statement, with justification therefor, of the dates

upon which the program may be completed and the elimination of the sand may be expected to be successfully attained.

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.

R. J. Duran
President.
Justus J. Cassin
Harold P. Kilo
Herbert Pott
John E. Mitchell
Commissioners.

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the City of North Sacramento and adjacent territory,
Sacramento County.

RATES

Quantity Rates:	<u>Per Meter Per Month</u>
First 700 cu.ft. or less	\$1.75
Next 1,300 cu.ft., per 100 cu.ft.14
Next 3,000 cu.ft., per 100 cu.ft.10
Over 5,000 cu.ft., per 100 cu.ft.06
 Minimum Charge:	
For 5/8 x 3/4-inch meter	\$1.75
For 3/4-inch meter	2.25
For 1-inch meter	3.25
For 1-1/2-inch meter	5.00
For 2-inch meter	8.00
For 3-inch meter	15.00
For 4-inch meter	25.00
For 6-inch meter	40.00

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

EXHIBIT A
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Schedule No. 2

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrant service to municipalities and other public agencies only.

TERRITORY

Throughout the entire territory served in the City of North Sacramento and in Sacramento County.

RATES

	<u>Per Hydrant Per Month</u>	
	<u>Mains Smaller Than 4-inch</u>	<u>Mains 4-inch or Larger</u>
1. Customer-owned and maintained hydrant, service pipe and fittings:		
Wharf Hydrant	\$0.75	\$1.00
Standard Hydrant:		
Single Outlet		1.25
Double Outlet		1.50
Triple Outlet		2.00
2. Customer-owned and maintained hydrant only:		
Wharf Hydrant	\$1.00	\$1.25
Standard Hydrant:		
Single Outlet		1.50
Double Outlet		2.25
Triple Outlet		3.75
3. Company-owned and maintained hydrant, service pipe and fittings:		
Wharf Hydrant	\$1.50	\$2.00
Standard Hydrant:		
Single Outlet		2.50
Double Outlet		3.50
Triple Outlet		5.00

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Schedule No. 2—contd.

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS

1. The above monthly rates include the use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges therefor will be made at General Metered Service rates.
2. The Company will supply only such water at such pressure as may be available from time to time as a result of its normal operation of its distribution system.