

Decision No. 48621**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CITIZENS UTILITIES COMPANY OF CALIF-))
 ORNIA, for Authority to Increase)
 Water Rates for its Water System)
 Serving Niles, Decoto and Adjacent)
 Territory.)

Application No. 33578.

Orrick, Dahlquist, Neff & Herrington, by
George H. Johnston and Warren A. Palmer,
 for applicant.

Decoto Chamber of Commerce, by Manuel
Hidalgo, protestant.

Decoto School District, by Boyd D. Morningstar,
 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, on July 17, 1952, filed applications for authority to increase water rates in each of its five separate operating districts. The five applications were consolidated for the purpose of receiving evidence. Individual decisions will be rendered in each instance, the one herein pertaining specifically to the above-entitled application for a general increase in water rates for the system serving Niles, Decoto and adjacent territory in Alameda County.

Public Hearings

The consolidated hearings were held before Commissioner Peter E. Mitchell and Examiner F. Everett Emerson during the month of February, 1953 and the matters were submitted for decision at the conclusion of twelve days of hearing, on February 27, 1953.

Applicant did not submit Exhibit No. 16, however, until April 7, 1953. In all, 53 witnesses were heard and 35 exhibits were received. The reporter's transcript of the proceedings totaled 1,386 pages.

Applicant's Request

Applicant's instant request, after two amendments to its original application, 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.

Quantity in Cubic Feet:	Monthly Bill			Per Cent Increase	
	At Present Rates	At Requested Rates	At Requested Rates	Niles	Decoto
0-600	\$ 1.00	\$ 1.50	\$ 1.90	90.0%	26.7%
667	1.00	1.50	2.03	103.0	35.4
1,000	1.50	2.00	2.70	80.0	35.0
2,000	3.00	3.50	4.70	56.7	34.3
6,000	9.00	9.50	11.70	30.0	23.2
20,000	27.50	28.00	25.70	Reduction	Reduction
80,000	83.00	83.50	85.70	3.3	2.6
200,000	191.00	191.50	205.70	7.7	7.4

Applicant's present rates have remained substantially unchanged for a period of 35 years on this property.

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 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 1,530 of which are on its Niles-Decoto System.

The Niles-Decoto System is supplied water from four primary wells and one well used for emergency standby service. Water from these wells is pumped into two elevated storage tanks, whose aggregate capacity is 300,000 gallons, and then flows by gravity through about 172,900 feet of mains which vary in size from 6 inches to 1 inch in diameter. Since the beginning of World War II applicant has increased its fixed capital in this system by over 80 per cent. The number of service connections has increased nearly 50 per cent, length of mains has increased by 25 per cent and water sales have increased more than 130 per cent during the same period.

Summary of Niles-Decoto 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 in succeeding paragraphs. In the main, however, the staff presentation was pro forma, wherein normalized operations are reflected in each year, while applicant's showing was simply estimated or actual operations for the periods shown.

<u>Year 1951</u>			
Item	Applicant Recorded	Applicant Adjusted ^a	CPUC Staff Pro Forma ^b
Operating Revenue	\$ 43,962	\$ 43,962	\$ 43,475
Operating Expenses			
Before Taxes and Depr.	20,681	20,681	23,104
Taxes	3,282	6,149	5,400
Depreciation	7,315	7,315	7,297
Total Oper. Expenses	<u>31,278</u>	<u>34,145</u>	<u>35,801</u>
Net Revenue	12,684	9,817	7,700
Rate Base (Depr.)	192,700	193,513	191,000
Rate of Return	6.58%	5.07%	4.03%

- a. Adjusted for current income tax rates.
- b. Pro forma signifies that all known revenue and expense influences occurring during the calendar year 1952 are reflected for the full year 1951.

Year 1952

Item	Present Rates		Requested Rates:
	Applicant ^c	CPUC Staff ^d	CPUC Staff ^d
Operating Revenue	\$ 44,426	\$ 46,100	\$ 64,800
Operating Expenses			
Before Taxes and Depr.	22,191	24,290	24,290
Taxes	6,302	6,900	17,000
Depreciation	7,680	7,645	7,645
Total Oper. Expenses	36,176	38,835	48,935
Net Revenue	8,250	7,300 ^e	15,900 ^e
Rate Base (Depr.)	199,202	197,000	197,000
Rate of Return	4.14%	3.71%	8.07%

- c. Estimated on basis of 11 months actual.
d. Estimated on basis of 11 months actual in most accounts, 9 months actual in others.
e. Rounded figure.

Year 1953

Item	Estimate by Applicant	
	Present Rates	Requested Rates
Operating Revenue	\$ 45,056	\$ 60,901
Operating Expenses		
Before Taxes and Depr.	25,875	25,875
Taxes	4,374	12,887
Depreciation	8,020	8,020
Total Oper. Expenses	38,269	46,782
Net Revenue	6,787	14,119
Rate Base (Depr.)	204,625	204,625
Rate of Return	3.32%	6.90%

In addition to the Niles-Decoto 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. The rates proposed in Exhibit No. 3, however, would increase such return somewhat.

Revenues

Applicant's revenues, in 1952 and prior years, were obtained from sales of water to domestic and commercial customers at filed rates and from certain irrigation and other large consumers for which applicant has no filed rate schedules. For the purpose of this proceeding, however, the staff included in their revenue estimates average amounts corresponding to the actual past charges made by applicant. In this respect the staff's revenue estimates, although normalized, appear to be somewhat understated. Applicant used the same basic method in its revenue estimates and, in addition, eliminated one large user which it alleged was no longer a customer. Cross-examination, however, disclosed that such customer was still being furnished service at the time of the hearing in this matter. In view of the evidence we shall adopt, for the purpose of this proceeding, an amount of \$47,000 as a reasonable estimate of 1952 sales under present filed rates.

Expenses

Differences in 1952 expense estimates result primarily from applicant's having used recorded 1952 amounts whereas the staff normalized expenses by using a four-year average of certain fluctuating expenses adjusted to reflect 1952 system growth and adjusted to give full-year effect to general wage increases and increased electric power costs. In view of the record we shall adopt, as a reasonable estimate of 1952 total operating expenses, the sum of \$38,500.

Rate Base

The rate bases, set forth for the years 1951 and 1952 in the summary tabulation above, differ primarily in the treatment accorded landed fixed capital. Applicant's fixed capital accounts stem from the year 1929 when, upon authorization of this Commission,

it acquired the properties and restated the books of account. In presenting its study of fixed capital in this proceeding, the staff assumed that such restatement of the books placed in the land account a then present market value of lands and, therefore, undertook an adjustment of such account in order to place it on an estimated original cost basis. In the absence of a conclusive showing that said assumption was based upon fact, we have turned to and take official notice of our Decision No. 21116 in Application No. 15442 (33 CRC 79) wherein we find set forth as "the estimated original or historical cost less depreciation" items which are identical with those appearing on the books of applicant. No adjustment of such amounts need now be made. Net additions since 1929 are not questioned in this proceeding. We find that applicant's statement of fixed capital as of the beginning of the year 1952 is reasonable and should be adopted for the purpose of this proceeding. In view of the evidence we adopt and find to be reasonable an average depreciated rate base of \$198,500 for the year 1952.

With respect to the year 1953, applicant presented a construction budget, authorized by its management, by which gross fixed capital additions totaling \$15,631 will be made to the Niles-Decoto System. The largest item is the replacement of a 100,000-gallon storage tank at a cost of \$5,106. On a weighted average basis net additions during 1953 will be approximately \$8,000. For the average year 1953, we find an estimated depreciated rate base of \$200,300 to be reasonable.

Rate of Return

Relating the above-adopted revenues and expenses to the depreciated rate base hereinabove found to be reasonable for the year 1952, indicates a rate of return of 4.28 per cent. It is apparent that applicant is not now earning a reasonable return on its Niles-Decoto water System.

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 per cent 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

Through its president and another representative the Decoto Chamber of Commerce expressed opposition to an increase in rates and alleged that applicant's service in the Decoto area was inadequate. Their testimony indicates that during those periods when cannery operations require large quantities of water, many residents of the area experience low pressure and that the school's water supply to its drinking fountains is deficient. Applicant alleged such conditions were unknown to it and pointed out that pressure is maintained by automatic pressure control of its pumps, which are so controlled that the pumps are started whenever the pressures at the pump stations decrease to 40 psi. In view of the evidence such lower limit appears to be too low.

Irregular Practices

The record discloses that applicant's billing practices, in certain instances, are not in accordance with its filed rates. Applicant, in several instances, has rendered a bill to an individual consumer for the specific usage recorded by the water meter and, in addition thereto, has rendered a second bill to the same consumer setting forth an unexplained flat charge. No portion of applicant's tariffs provide for such billing.

Applicant's local manager was uncertain as to what constituted proper billing. He testified that his office prepared bills from a chart left by his predecessor and that he could not recall having seen an official set of tariffs for this system.

No rates or rules are available for the use of applicant's employees or for public inspection in the Niles office.

Other irregular practices brought to light during the course of the hearings are equally disturbing. For example, applicant bills certain churches and not others, applicant serves irrigation customers at rates less than the authorized rates on file and applicant serves at least one industrial customer under a special contract which has never been submitted to this Commission.

These matters, in addition to being contrary to the basic statutes and to the orders of this Commission, engender serious doubts as to the efficiency of applicant's operations and managerial supervision as well as to the efficacy of its public service.

Conclusions

We are of the opinion that the evidence in this particular proceeding does not warrant a finding that a rate of return of 6.9 per cent is fair and reasonable. Upon the record before us we do not see any reason for authorizing a return substantially in excess of 6.0 per cent. At the same time, however, we are of the opinion that some recognition should be given to the declining rate of return with which this company no doubt will be faced. Accordingly, 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 \$58,900 will yield a net revenue of \$12,700 which, when applied to a depreciated rate base of \$200,300, resulting in an indicated rate of return of 6.34 per cent, will provide applicant with a reasonable return.

In view of the evidence respecting low pressures in the Decoto area applicant will be required to increase the lower limits of its automatic pump controls and to maintain a pressure of not less than 45 psi at each pump station.

Applicant will be required to serve all customers at the rates hereinafter authorized without discrimination and without deviation therefrom. Applicant shall not serve any customer, under contract or otherwise, at rates other than those hereinafter authorized until, after separate showing before this Commission that such other rates are justified, a specific order of this Commission is entered authorizing the same. All rates and charges together with rules governing relations with its customers must be maintained in its local office for public inspection.

Applicant will be required to complete its 1953 construction program as set forth in this proceeding and in no wise is it authorized to curtail its operations on the Niles-Decoto System.

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.

Authorized Rates

The rates hereinafter authorized will increase applicant's gross revenues by approximately \$11,900 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>Quantity</u>	<u>Monthly Bill</u>
0-600 cubic feet	\$1.60
1,000 cubic feet	2.40
1,500 cubic feet	3.40
2,000 cubic feet	4.40
2,500 cubic feet	5.15
5,000 cubic feet	8.30

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 Niles, Decoto and adjacent

territory in Alameda 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 schedule 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 acceptable to this Commission 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 five years. Results of these reviews shall be submitted to this Commission.

- 4. Applicant shall immediately establish and thereafter maintain distribution main pressures at its pumping stations of not less than 45 pounds per square inch gauge.
- 5. 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.

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. F. [Signature]
President.

Justin F. [Signature]

Harold D. [Signature]

Samuel [Signature]

John E. [Signature]
Commissioners.

EXHIBIT A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial, irrigation and industrial water service.

TERRITORY

Throughout the entire service area of the Niles-Decoto System in Alameda County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 600 cu.ft. or less	\$1.60
Next 1,400 cu.ft., per 100 cu.ft.20
Next 1,000 cu.ft., per 100 cu.ft.15
Over 3,000 cu.ft., per 100 cu.ft.12
 Minimum Charge:	
For 5/8 x 3/4-inch meter	\$1.60
For 3/4-inch meter	2.00
For 1-inch meter	3.00
For 1-1/2-inch meter	6.00
For 2-inch meter	10.00
For 3-inch meter	17.00
For 4-inch meter	25.00

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
Page 2 of 2

Schedule No. 2

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrants of county fire districts or other political subdivisions of the state attached to the utility's distribution mains for fire protection service.

TERRITORY

Throughout the entire service area of the Niles-Decoto System in Alameda County.

RATES

Per Month

For each public fire hydrant \$1.50

SPECIAL CONDITIONS

1. The above monthly rate includes 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 the system.