

ORIGINAL

Decision No. 48622

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. 33577
for its Water System Serving)
Montara, Moss Beach and Adjacent)
Territory.)

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

Montara-Moss Beach Improvement Association,
by John Kyne, Frank W. Grant and Sheila
Heagan, protestant.

Eleanor C. Kisthardt and Dorothy H. Boucher,
in propria personae, protestants.

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 Montara-Moss Beach System in San Mateo County.

This application is one of five filed by applicant on the same date for each of its five separate water systems. 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 held, 53 witnesses were heard and 35 exhibits were received. Submission of the matters 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 rate of return of 6.9 per cent on its rate base. Applicant proposes specific rates which it claims will produce the desired return.

The rates presently in effect were established in 1949 pursuant to this Commission's Decision No. 42252 in Application No. 28618 and are compared with those which applicant proposes in the following tabulation:

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Per Cent Increase</u>
<u>Monthly Minimum Charge:</u>			
For 5/8 x 3/4-inch meter	\$ 2.50	\$ 3.75	50.0%
For 1-inch meter	3.00	4.25	41.6
For 1 1/2-inch meter	6.00	7.00	16.7
For 2-inch meter	9.00	10.00	11.1
For 3-inch meter	18.00	19.00	5.6
For 4-inch meter	24.00	25.00	4.2
<u>Monthly Quantity Charge:</u>			
First 500 cu.ft. or less	\$ 2.50	\$ 3.60	44.0%
Next 4,500 cu.ft., per 100 cu.ft.40	.55	37.5
Over 5,000 cu.ft., per 100 cu.ft.30	.35	16.7

Applicant's Operation

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 300 of which are on its Montara-Moss Beach System.

The water system of applicant's Montara District is basically one of gravity flow from a single diversion dam on a creek above Montara. During times of abnormal operations the system may be supplied from a company-owned well and by inter-connection with a water system of the Montara School District.

At the end of 1952 the water system had a total storage capacity of approximately 15,800 cubic feet. Its distribution mains totaled about 100,800 feet, 82 per cent of which were smaller than 4 inches in diameter. The system is incapable of providing public fire hydrant service. During the winter months the minimum water delivery is about 97,000 cubic feet per month. During the peak month of July deliveries reach 192,000 cubic feet.

Applicant's Montara District office and employees are under the supervision of a district manager whose headquarters are at Boulder Creek in Santa Cruz County, some 52 miles distant. The billing of Montara District customers is handled by employees of applicant's Niles District office in Alameda County.

As in other districts, applicant provides certain service at other than filed rates. In Montara it supplies private fire hydrants at a rate which is not filed.

Summary of Montara District Operations

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

The evidence indicates that during 1951 applicant's Montara operations yielded a rate of return of approximately 4½ per cent.

Year 1952 Estimated

Item	Present Rates		Requested Rates ^a
	Applicant	CPUC Staff	CPUC Staff
Operating Revenue	\$11,436	\$11,340	\$16,640
Operating Expenses	9,837	9,931	12,831
Net Revenue	1,599	1,400 ^b	3,800 ^b
Rate Base (Depr.)	48,384	46,100	45,800
Rate of Return	3.30%	3.04%	8.30%

a. At rates requested by applicant in application as amended.

b. Rounded figure.

Year 1953 Estimated

Item	Applicant	
	Present Rates	Requested Rates ^b
Operating Revenue	\$11,275	\$15,923
Operating Expenses		
Before Taxes and Depr.	6,830	6,830
Taxes	1,175	3,544
Depreciation	2,057	2,057
Total Operating Expenses	10,062	12,431
Net Revenue	1,213	3,492
Rate Base (Depr.)	50,614	50,614
Rate of Return	2.40%	6.90%

b. As contained in Exhibit No. 3.

In addition to the Montara District results of operations indicated above, 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.

Protestants' Position

Protestants opposed the requested increase in rates primarily because of applicant's failure to meet customers' needs over a long period of time and, further, upon the basis that the presently requested increase is disproportionate to applicant's increased costs.

Protestants presented the results of a survey of their membership which indicated that the complaints of 11 customers entered in the last rate proceeding^{1/} were still unsatisfied. In addition, 92 of the present customers, about one third of all customers served, are dissatisfied with the service provided by applicant. Of these latter complainants, 32 claimed deficient or completely inadequate water pressure and 51 complained of dirty and muddy water.

Applicant's Performance

Complaints respecting pressure and quality 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 specific improvements. Applicant has reported, as to its compliance with such directive, that as of May 9, 1949 the installation of a 20,000-gallon storage tank and 3,300 feet of 2-inch connecting mains in Montara had entirely corrected customer complaints in the Sunshine Valley area. In the present proceeding the evidence is clear that up to the date of submission the same area was still receiving inadequate service.

^{1/} In Application No. 28618, November 1948.

With respect to replacement of old and undersized mains in Moss Beach and Montara, applicant reported that it had replaced "all of our old mains, except 300 feet at the south end of the job" and that the remainder was to have been completed by June 30, 1949. Evidence in the present proceeding clearly indicates that the area still contains old and undersized mains.

Applicant reported that the installation of an automatic hypochlorinator on the Montara-Moss Beach supply was completed and operating satisfactorily on February 10, 1949. It is clear from the evidence in the present proceeding that said hypochlorinator was placed in position not at the reservoir where it might have been effective but at a well site where it was never operated. Applicant did not, until the present proceeding was in progress, have electric power installed so that the device might perform its intended function. In this respect counsel for applicant stated: "It is true that the automatic chlorinator which was installed at the pump was not in use in 1952 and we concede that it should have been. However, a strict or technical reading of the order required it only be installed at the well. We do not stand on any such technicality. We concede that we were wrong in not having it in operation and having it installed at the reservoir. It has been installed and is now in operation." (Emphasis supplied.)

It is clear that applicant, intentionally or not, has misled this Commission with respect to its performance in meeting its utility obligations. Its service admittedly has been inferior.

Commencing in the latter part of 1952, and with apparently great acceleration during the month of February, 1953, applicant feverishly pursued a program of system reinforcement looking towards alleviation of its low pressure problems. At the hearing in Montara it claimed that, as of the day before, it had completed the installation of a major section of main reinforcement and that

as of that moment its pressure problems were met. Applicant's witness, however, was premature in his announcement. The installation had not been completed as claimed and complaints continued. We take notice, however, that the installation has since been completed. Its effectiveness in meeting low pressure problems may not be observed until the peak summer load.

With respect to quality of water the evidence is clear that muddy water has been supplied regularly during winter and spring seasons when rainfall disturbed the runoff water used as the source of supply. It appears that applicant could have used, but did not use, its well and standby sources during such periods. Such situation applicant now claims to have corrected by having instructed its local representative to transfer from the gravity supply to the well supply at any time when the possibility of muddy water becomes apparent.

Applicant operates its Montara System without a permit from the Board of Health. It regularly tests its water in a private laboratory, however. On occasion it has been ordered to provide protective chlorination. The automatic chlorinator now in operation, if properly continued in operation, should protect the health of its patrons.

Applicant's counsel has stated that because of the relatively small size of the Montara System, applicant has been reluctant to make expenditures in the area. We observe that applicant's customers have been equally reluctant to pay high rates for the inferior service which has been supplied.

Conclusions

It is apparent from the tabulation respecting results of operations that applicant's earnings on this system in 1952, whether tested by either its own or the staff's showing, did not produce a

reasonable rate of return. Applicant clearly needs some improvement in its earning position. We find that the rates which applicant requests be made effective and the rate of return which such rates would produce in this instance are unreasonable and they will not be authorized.

In view of the entire record in this proceeding and after careful consideration of statements by applicant's counsel, protestants and parties of record, we are of the opinion and hereby find that applicant is entitled to have its earning position restored to that level it enjoyed during the year 1951, after due allowance for normal growth and normally experienced increases in reasonable operating expenses. For the purpose of an arithmetical calculation of such position we shall fully recognize applicant's 1953 construction program, even though not presently completed. As a reasonable depreciated rate base for the year 1953, therefore, we adopt the sum of \$51,000.

It is our conclusion that increased rates should be authorized that will produce approximately \$13,800 in gross revenues, based upon estimated consumption in 1953. After deduction of reasonable operating expenses of \$11,250 including depreciation and taxes, with income taxes based upon authorized rates, a net revenue of \$2,550 will result. Such net revenue, when related to the rate base hereinabove adopted as reasonable, indicates a rate of return of 5.0 per cent. For the purposes of this proceeding we find such rate of return 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 will be required to modernize its rules and, in accordance with the basic statutes and the orders of this Commission, to maintain an accurate file of its tariffs in its Montara office.

Applicant will be required to fully complete its 1953 construction program.

Authorized Rates

The rates hereinafter authorized will increase applicant's gross revenues by approximately \$2,500 on an annual basis.

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

<u>For 5/8 x 3/4-inch Meter</u>	
<u>Cubic Feet</u>	<u>Monthly Bill</u>
0-500	\$ 3.25
600	3.65
700	4.05
800	4.45
900	4.85
1,000	5.25
1,500	7.25
2,000	9.25
5,000	21.25
10,000	36.25

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 Montara, Moss Beach and adjacent territory in San Mateo 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 Montara 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 and facilities 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. 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. J. [Signature] President.

Justin F. Caswell

Harold P. Kuls

Benjamin P. [Signature]

[Signature] Commissioners.

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the unincorporated communities of Montara, Marine View, Farallone City, Moss Beach and vicinity, San Mateo County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. or less	\$ 3.25
Next 4,500 cu.ft., per 100 cu.ft.40
Over 5,000 cu.ft., per 100 cu.ft.30

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.25
For 3/4-inch meter	3.50
For 1-inch meter	4.00
For 1 1/2-inch meter	7.00
For 2-inch meter	10.00
For 3-inch meter	20.00
For 4-inch meter	35.00

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

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to service to private fire hydrants in establishments or on property located along existing mains.

TERRITORY

In the unincorporated communities of Montara, Marine View, Farallone City, Moss Beach and vicinity, San Mateo County.

RATES

Per Month

For each wharf hydrant \$1.25

SPECIAL CONDITIONS

1. The above 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 the 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.

3. Hydrants, services and connections therefor will be installed and maintained at the expense of the customer.