

ORIGINAL

Decision No. 5701A

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CITIZENS SUBURBAN COMPANY, a corpo-)
 ration, for authority to increase)
 its rates and charges for its water)
 system serving the unincorporated) Application No. 39837
 areas known as Rosemont Subdivision)
 and Cordova Towne, east of the City)
 of Sacramento, Sacramento County.)

Graham, James & Rolph, by Boris H. Lakusta, for
 applicant.

Richard C. Price, for Rosemont Home Owners and for
Price & Reynolds, Developers of Rosemont, protestant.
Harold J. McCarthy and John R. Gillanders, for the
 Commission staff.

O P I N I O N

By the above entitled application filed February 19, 1958, Citizens Suburban Company, a corporation, seeks an order of this Commission authorizing an increase in rates for water service rendered in the unincorporated areas known as Cordova Towne and Rosemont Subdivision in Sacramento County. Both areas are adjacent to U. S. Highway 50 and are located approximately 13 and 11 miles, respectively, east of the City of Sacramento.

Public Hearing

After due notice a public hearing was held before Examiner E. Ronald Foster at Sacramento on June 5 and 6, 1958. A few customers of the utility attended the hearing but none of them testified.

Witnesses on behalf of applicant presented oral testimony and supporting exhibits respecting applicant's operations and also concerning applicant's relations with its affiliate, Citizens Utilities Company of California, as well as with its parent, Citizens Utilities Company, a Delaware corporation.

Witnesses for the Commission staff also presented evidence, both oral and documentary, concerning the results of their independent studies and analyses of applicant's operations, including the relations with its affiliate and parent.

Richard C. Price, a partner of the firm of Price and Reynolds, subdividers and builders in the Rosemont area, and claiming to represent also the Rosemont home owners, protested the requested increase in water rates and testified concerning the current and anticipated development and increase in the number of homes in the Rosemont area.

Subject to the later filing of three exhibits, the last of which was received by the Commission on June 20, 1958, the matter was submitted and is now ready for decision.

Applicant's Request

Basically, applicant requests the Commission to establish rates for water service which will enable applicant to realize a 7.5 percent rate of return on its rate base. To yield such a return, applicant proposes rates estimated to produce annual gross revenues of \$13,463 based upon the anticipated level of business during 1958, an increase of \$5,783, or 75 percent, more than the \$7,680 gross revenue estimated as obtainable for that year at the rates presently in effect.^{1/}

Applicant also requests authority to revise Section A of its Rule and Regulation No. 7 pertaining to the amount of deposit required to establish credit for metered service. Applicant claims that the present rule does not provide adequate protection against uncollectible bills and proposes that the amount of deposit required

^{1/} From Exhibit D of application.

for domestic service be twice the monthly minimum charge for the size of the meter serving the premises and for all other service an amount equal to twice the estimated average monthly bill, but not less than \$10.00.

Rates, Present and Proposed

The presently filed rates were authorized by the Commission's Decisions No. 53808 and No. 53807 dated September 25, 1956, in Applications No. 37236 and No. 38126, respectively, and have been in effect since December 2, 1956. The following comparative tabulations summarize the present rates and those proposed by applicant as set forth in its application, for both the Cordova Towne and the Rosemont Subdivision tariff areas:

GENERAL METERED SERVICE

	Per Meter Per Month					
	Cordova Towne			Rosemont Subdivision		
	Present Rates	Proposed Rates	Pct. Increase	Present Rates	Proposed Rates	Pct. Increase
<u>Quantity Rates:</u>						
First 1,000 cu. ft. or less	\$ 2.50	\$ 4.40	76.0%	\$ 2.75	\$ 4.80	74.5%
Next 4,000 cu. ft., per						
100 cu. ft. ....	.20	.35	75.0	.22	.38	72.7
Over 5,000 cu. ft., per						
100 cu. ft. ....	.15	.25	66.7	.16	.28	75.0
<u>Minimum Charge:</u>						
For 5/8 x 3/4-inch meter ..	2.50	4.40	76.0	2.75	4.80	74.5
For 3/4-inch meter ..	3.50	6.15	75.7	3.75	6.60	76.0
For 1-inch meter ..	6.00	10.50	75.0	6.00	10.50	75.0
For 1½-inch meter ..	12.00	21.00	75.0	12.00	21.00	75.0
For 2-inch meter ..	16.00	28.00	75.0	16.00	28.00	75.0
For 3-inch meter ..	29.00	50.00	72.4	29.00	50.00	72.4
For 4-inch meter ..	45.00	80.00	77.8	45.00	80.00	77.8
For 6-inch meter ..	85.00	150.00	76.5	85.00	150.00	76.5

RESIDENTIAL FLAT RATE SERVICE^a

	Per Service Per Month					
	Cordova Towne			Rosemont Subdivision		
	<u>Pres- ent Rates</u>	<u>Pro- posed Rates</u>	<u>Pct. Incr.</u>	<u>Pres- ent Rates</u>	<u>Pro- posed Rates</u>	<u>Pct. Incr.</u>
1. Single-family residence including premises having an area of:						
8,500 sq. ft. or less	\$3.00	\$5.25	75.0%	\$3.25	\$5.70	75.4%
8,500 to 10,000 sq. ft.	3.25	5.70	75.4	3.50	6.15	75.7
Over 10,000 sq. ft. per 100 sq. ft.	.03	.05	66.7	.035	.060	71.4
2. For each additional residential unit on the same premises served from the same service connection	1.00	1.75	75.0	1.25	2.20	76.0
3. For each evaporative-type cooler in addition to regular flat rates, June through September:						
Circulating type	.20	.35	75.0	.20	.35	75.0
Noncirculating type	.50	.90	80.0	.50	.90	80.0
a. These flat rate charges apply to service connections not larger than 1 inch in diameter. All service not covered by the above classification will be furnished only on a metered basis.						

PUBLIC FIRE HYDRANT SERVICE
Both Cordova Towne and Rosemont Subdivision Areas

		Per Hydrant Per Month		
		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Wharf	Utility	\$2.00	\$3.50	75.0%
Wharf	Public Authority	1.50	2.60	73.3
Standard	Utility	3.50	6.15	75.7
Standard	Public Authority	2.25	3.95	75.6

Sodium fluoride is added at the well sites to the water supplied in Rosemont Subdivision but not in Cordova Towne. This accounts for the differentials, ranging from 0 to 25 percent, between the rates and charges in the two tariff areas.

Although the present and proposed rate schedules for both tariff areas specify charges for evaporative-type coolers, applicant has not been billing this additive charge to customers having such equipment. At the hearing, applicant requested that its application be amended to delete the said charge from its proposal, alleging that this tariff provision is impractical to administer.

With reference to public fire hydrant service, at the beginning of 1958 there were 21 wharf-type hydrants being served by applicant, 13 of which are owned by public authorities and 8 by the utility. However, applicant has been billing for all hydrants at the public authority ownership rate and applicant has asserted its intention to continue this method of charging for public fire hydrant service.

At the present time there are no meters in either tariff area, all service being rendered at flat rates. However, applicant considers it desirable to have rates for metered service on file in the event there should be some commercial users in the future.

Summary of Showings

The following tabulation compares the respective showings of applicant and the Commission staff, extracted from Exhibits No. 1 and No. 4-A in this proceeding:

SUMMARY OF EARNINGS
YEARS 1957, 1958 AND 1959

	Year 1957	Year 1958 Estimated				
		Adjusted Applicant	Present Rates		Proposed Rates	
			Applicant	Staff	Applicant	Staff
Operating Revenues	\$ 4,152	\$ 9,225	\$10,000	\$16,172	\$17,700	
Operating Expenses:						
Other than Deprec.&Taxes	2,473	5,329	5,000	5,381	5,000	
Depreciation	2,158	3,029	2,960	3,029	2,960	
Taxes - General	980	1,980	2,010	1,980	2,010	
Income Taxes:						
(S.L.Tax Depreciation)	25	25	25	1,831	2,256	
(Accel.Tax Depreciation)	-	-	25	-	1,291	
Total Operating Expenses:						
(S.L.Tax Depreciation)	5,636	10,363	9,995	12,221	12,226	
(Accel.Tax Depreciation)	-	-	9,995	-	11,261	
Net Revenue:						
(S.L.Tax Depreciation) (1,484)	(1,484)	(1,138)	5	3,951	5,474	
(Accel.Tax Deprec.)	-	-	5	-	6,439	
Rate Base (Depreciated)	69,360	83,967	78,000	83,967	78,000	
Rate of Return:						
(S.L.Tax Depreciation) (2.14%)	(2.14%)	(1.36%)	.1%	4.71%	7.0%	
(Accel.Tax Deprec.)	-	-	.1%	-	8.2%	

(Red Figure)

	Year 1959 Estimated			
	Applicant Staff		Applicant Staff	
	Applicant	Staff	Applicant	Staff
Operating Revenues	\$14,022	\$16,700	\$24,585	\$28,500
Operating Expenses:				
Supply, Power & Purification	4,584	4,400	4,584	4,400
Transmission & Distribution	532	450	532	450
Accounting, Collect. & Promot.	1,190	1,100	1,270	1,100
Administration, Gen'l. & Misc.	1,500	1,850	1,500	1,850
Subtotal	7,806	7,800	7,886	7,800
Depreciation	3,651	5,180	3,651	5,180
Taxes - General	2,505	3,060	2,505	3,060
Income Taxes:				
(S.L.Tax Depreciation)	25	25	3,393	3,657
(Accel.Tax Depreciation)	-	25	-	2,020
Total Operating Expenses:				
(S.L.Tax Depreciation)	13,987	16,065	17,435	19,697
(Accel.Tax Depreciation)	-	16,065	-	13,060
Net Revenue:				
(S.L.Tax Depreciation)	35	635	7,150	8,803
(Accel.Tax Depreciation)	-	635	-	10,440
Rate Base (Depreciated)	95,699	84,000	95,699	84,000
Rate of Return:				
(S.L. Tax Depreciation)	0.04%	.8%	7.47%	10.5%
(Accel. Tax Depreciation)	-	.8	-	12.4

1. Evaporative-Type Coolers

Both showings in the above tabulation are predicated on the applicant's proposal to eliminate charges for evaporative-type coolers, with no revenues being included therefor. The staff also estimated rates of return with revenues from coolers included as an approximation. A house-to-house survey, made by applicant on June 13, 1958 of the number of coolers in operation in both areas, the results of which are shown in late-filed Exhibit No. 6, indicates that the cooler revenues as estimated by the staff were considerably too high.

2. Cordova Towne Distribution System

Applicant's estimated rates of return are based on the acceptance by the subdivider of applicant's offer to terminate the percentage of revenue method of refund which is applicable to the Cordova Towne Unit No. 1 distribution system, through the payment of the present worth of a 6% annuity, while the staff's results in the above tabulation are based on the continuance of the refunding by the percentage of revenue method.

On the basis of acceptance of the utility's offer to pay the present worth, the staff's corresponding rates of return on the resulting estimated average depreciated rate bases of \$83,500 and \$94,500 for the years 1958 and 1959, respectively, are as follows:

<u>Estimated Year</u>	<u>Rates</u>	<u>Rate of Return</u>	
		<u>S. L. Tax Depreciation</u>	<u>Accel. Tax Depreciation</u>
1958	Present	0.1%	0.1%
1958	Proposed	6.6	7.7
1959	Present	0.9	0.9
1959	Proposed	9.4	11.1

Late-filed Exhibit No. 7 reveals (1) that on May 14, 1956, S. & J. Homes, the original subdividers of Cordova Towne, had assigned to Morris Abouaf their interest in the refunds payable in connection

with the distribution system, and (2) that, by an agreement dated June 18, 1958, said Morris Abouaf will release applicant from the refund agreement upon the receipt of \$10,413.23 to be paid to him on January 31, 1959.

3. Trend in Rate of Return

While the staff's estimated rates of return are higher than those estimated by applicant, it may be noted that both showings indicate a substantial upward trend, which a staff witness testified will continue for the next few years due to anticipated rapid customer growth coupled with a relatively slow increase in rate base through the employment of the main extension rule for distribution plant additions.

4. Income Tax Depreciation

In the foregoing tabulation, both the applicant's and the staff's estimates of operating expenses, net revenues and rates of return reflect income taxes based on the assumption of straight-line depreciation. The staff has also estimated these items to reflect applicant's actual basis of taxes on income.

Since the beginning of its operations in 1956, applicant has taken advantage of accelerated depreciation permitted by the provisions of Section 167 of the 1954 Internal Revenue Code. Applicant's witness testified, however, that applicant would abandon its past practice in this respect and return to the method of calculating depreciation expense on the straight-line basis if the Commission intended to render its decision herein on a basis by which the applicant would gain no advantage from such accelerated depreciation.

In support of its testimony, applicant presented Exhibit No. 2 which is a commitment respecting accelerated depreciation.

Applicant declares that if the Commission determines in this proceeding that the tax deferral resulting from the use of accelerated depreciation in the calculation of federal income taxes should flow through into earnings for rate-making purposes, then applicant commits itself for the property involved in this application to elect and use the straight-line method of depreciation for income tax purposes.

In view of this commitment, therefore, we shall calculate applicant's income tax expense on the basis of straight-line depreciation. This anticipates that applicant will make suitable application to the United States Internal Revenue Service for permission to revert from the basis of accelerated depreciation to straight-line depreciation and that the necessary approval will be obtained. It is understood that applicant has not yet filed its federal income tax return for the calendar year 1957. Should applicant, for any reason and despite this decision, continue to claim accelerated depreciation in its tax returns for the years 1957 and 1958 or any future year before a final decision on the general issue of accelerated depreciation is rendered by the Commission, applicant will be expected to so report immediately to the Commission, whereupon the Commission reserves the right to reopen this proceeding to adjust the rates herein authorized in such manner as it may find to be appropriate.

Applicant also introduced Exhibit No. 3 which is a further commitment respecting certain deductions which, for accounting and rate-making purposes, have been capitalized, or charged to the depreciation reserve account, but which have been taken as an expense item (deduction) for federal income tax purposes. In the current proceeding, the staff has followed applicant's past practice in taking

the deductions itemized in this commitment. In the event that applicant actually changes its practice by not taking such deductions, the Commission will give due consideration thereto in connection with any later proceedings.

5. Revenues

It may be observed that the staff's estimated revenues are considerably higher than those of applicant. A review of the direct evidence and of the cross examination of the witnesses pertaining to this subject indicates the difference is due to several factors:

- (a) Customer Count. In a house-to-house survey made by an engineer of the Commission's staff on April 21, 1958, he found 91 customers in Cordova Towne and 140 in Rosemont Subdivision or a total of 231 customers actually being served with water, which total was found to agree closely with the applicant's office records. However, Table 3-A of applicant's Exhibit No. 1 shows only 182 and 202 total customers for the months of April and May, 1958, respectively, as the estimated number of customers from which revenues were calculated. This difference is reflected throughout the year so that the applicant's average of 223 customers for the year 1958 differs from the staff's average of about 250 customers. At the end of the year 1958, applicant estimated a total of 287 customers while the staff estimated 91 in Cordova Towne and about 224 in Rosemont Subdivision, or a total of approximately 315 customers. It may be pointed out here that the testimony of Richard C. Price, on behalf of the developers of Rosemont Subdivision, was to the effect that, in addition to 150 homes in Unit No. 1 already completed at the time of the hearing, 123 more houses in Unit No. 2 were expected to be completed by the middle of July and 124 more in Unit No. 3 would be ready for occupancy by the end of December 1958, making a total of nearly 400 houses in Rosemont Subdivision alone. Units Nos. 4 and 5 are planned for development in 1959. The evidence indicates that the houses are sold and occupied quickly after their completion, resulting in added customers for applicant.
- (b) Anticipated Growth. In addition to the underlying difference between the two estimates of customers for the year 1958, for the year 1959 applicant estimated a growth of 108 customers as compared with the staff's estimated addition of about 185 customers. The resulting averages for the year were 346 and about 400 customers, respectively, as estimated by applicant and the staff.

- (c) Fire Protection Service. Analysis of the two estimates of revenues from fire protection service rendered through public fire hydrants shows that while they are in fairly close agreement for the year 1958 at both present and proposed rates, applicant has estimated no increase in such revenue for 1959. On the other hand, the staff has estimated that revenues from this source will increase approximately in proportion to the number of customers who will be afforded the fire protection service from additional hydrants to be installed in connection with the water supply and distribution facilities.

From a review of all the evidence relating to the number of customers and the revenues obtainable therefrom, it appears that the staff's estimates are realistic and reasonable, even though they do not fully reflect the predictions of the subdividers. The staff's estimates of operating revenues for the test years 1958 and 1959 will be adopted as reasonable for the purposes of this proceeding.

6. Operating Expenses, Taxes and Depreciation

Although a comparison of the two showings reveals differences in the individual items and groups of expenses, the total amounts of operating expenses, general taxes and depreciation for the year 1958 agree within reasonable limits of estimating accuracy. The same is true for the year 1959 for the total operating expenses other than taxes and depreciation.

The staff's estimates of depreciation and general taxes for the year 1959 are \$1,529 and \$555, respectively, higher than those of applicant. These higher amounts reflect the greater plant investment estimated by the staff as necessary to serve the anticipated increase in the number of customers.

Taxes on income vary, of course, with the amount of taxable income which, in turn, depends upon the estimated gross revenue and the allowable deductions. This accounts for the staff's estimates

of income taxes, using straight-line depreciation, being somewhat higher than applicant's in both years 1958 and 1959.

The staff's estimates of expenses, including taxes and depreciation, appear to be consistent with its customer and revenue estimates and they will be adopted as reasonable for purposes herein.

7. Rate Bases

Both applicant and staff used the same amounts for utility plant and the depreciation reserve balances at the beginning of the year 1958. The amounts budgeted by applicant for construction during the years 1958 and 1959 were \$39,000 and \$2,500, respectively, while the staff's estimated net additions to plant for the same two years were \$43,500 and \$56,300, respectively. The resulting large differences are mostly offset in the rate bases by correspondingly greater deductions by the staff for contributions and advances for construction. Smaller differences appear in the two showings of the amounts estimated for allocation of common utility plant at Redding and North Sacramento, for materials, supplies and working cash, and for accruals to the depreciation reserve because of somewhat longer lives for some classifications of plant used by the staff. Following is a comparative tabulation of the average depreciated rate bases for 1959 as developed by applicant and by the staff.

Estimated Rate Base for 1959

	<u>Applicant</u>	<u>Staff</u>
Utility Plant, beginning of year	\$127,705	\$132,205
Utility Plant, additions during year	2,500	56,300
Utility Plant, end of year	<u>130,205</u>	<u>188,505</u>
Utility Plant, average for year	128,955	188,000
Allocation of Common Plant	1,150	1,400
Total Plant, average for year	<u>130,105</u>	<u>189,400</u>
Materials, Supplies and Working Cash	1,000	700
Subtotal	<u>131,105</u>	<u>190,100</u>
<u>Deductions:</u>		
Average Depreciation Reserve	7,320	8,200
Average Contributions	6,822	6,900
Average Advances for Construction	21,264	80,300
Total Deductions	<u>35,406</u>	<u>95,400</u>
Average Depreciated Rate Base	95,699	94,700
Use	95,699	94,500

Both of the above derivations are based on the premise that the termination of the main extension contract applicable to the Cordova Towne Unit No. 1 distribution system had been accomplished about the middle of 1958. The fact that the main extension contract will not be terminated until January 31, 1959, as evidenced by Exhibit No. 7, will not have a material effect on the estimated rate base. The staff anticipated that other units of distribution facilities, to be financed largely through advances for construction, will be completed in January of 1959, and such additions to plant were weighted accordingly in arriving at the average for the year.

The staff's treatment of the various elements and components of rate base appears to be fair and reasonable and the amount of \$94,500 developed by the staff for the year 1959 is hereby adopted as a reasonable rate base upon which to test the reasonableness of rates proposed by applicants and of rates to be authorized in this proceeding.

Opposition to Rate Increase

As hereinabove stated, Richard C. Price protested any increase in rates. He stated as one reason that Sacramento people are accustomed to low water rates and for another reason that rates higher than those now being charged by applicant will act to deter sales of homes in the service area. It was his feeling that with customers being added at the rate that houses are planned to be completed, applicant's revenues at the present rates will be compensatory.

Although this witness admitted that residential construction had not come up to his expectations since applicant began operations in the area, he gave the following reasons to support his contention that such construction would now proceed rapidly in accordance with his predictions, namely: (1) proximity of the two areas to the City of Sacramento; (2) increased activity at nearby Mather Field involving many hundreds of Air Force and civilian personnel and related servicing of their families; (3) relaxation since March 1958 of down payment controls by the Federal Housing Administration; (4) recent elimination by the Veterans Administration of any down payment; and (5) a concurrent increase in the legal interest rate which tends to encourage savings banks and insurance companies to invest their money.

Proposed Rate Schedules

Several aspects of the form and level of rates proposed by applicant require comment.

1. Fluoridation of Water

It is assumed that the cost of producing and distributing water in applicant's two areas is the same except for the fluoridation of water served in Rosemont Subdivision whereas that served in Cordova Towne is not fluoridated. Since rates were first established

for the two tariff areas, the cost of such fluoridation has been represented by a basic differential in water rates of 25 cents per month per service plus some incremental amounts in the charges for additional use of water. Applicant has requested a substantially uniform increase of 75 percent in all rates and charges for both areas. This would result in increasing the basic differential in water rates between the two areas to 45 cents per month per service plus correspondingly larger amounts in the incremental charges.

Where fluoridation of water is done, from a practical standpoint it is necessary to treat the entire supply of water, regardless of its eventual use for drinking, irrigation, sanitary or other purposes. On the other hand, it is generally recognized that the benefits of fluoridation accrue only to people from the water internally consumed.

The record herein contains nothing pertaining to the cost of fluoridating water. Therefore, in this situation it is necessary to determine the amount of the differential in rates between the two areas arbitrarily. Based on informed judgment, an amount of 25 cents per service per month is considered as reasonable to represent the total cost of fluoridating water delivered to consumers in Rosemont Subdivision. That amount will be maintained as a fair and equitable basic differential in rates between applicant's two tariff areas. In the design of both meter and flat rate schedules to be authorized herein, the differential of 25 cents per service per month will be used without any amounts in the incremental charges for additional use of water, except in the case of an additional residential unit served from the same service where the same 25-cent differential will also apply.

2. Evaporative-Type Coolers

Applicant has requested that the additive charge for evaporative-type coolers during the months of June through September be eliminated from the flat rate service schedule. At the insistence of the Commission's staff, applicant was required to make a survey to determine the number of such coolers in use by its customers. The results of the house-to-house survey completed on June 13, 1958 are shown in the late-filed Exhibit No. 6. The following tabulation shows the potential additional revenue from the number of coolers in operation on that date, at both present and proposed rates which are the same for both tariff areas:

<u>Type of Cooler</u>	<u>No. of Coolers</u>	<u>4-Mos. Charge</u>		<u>Annual Revenue</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Circulating	29	\$0.80	\$1.40	\$23.20	\$40.60
Noncirculating	14	2.00	3.60	28.00	50.40
Total	43	-	-	51.20	91.00

The total number of coolers in operation on the date of the survey is about 18 percent of the total estimated number of applicant's customers in June. The potential additional revenue from coolers represents about one-half of one percent of the total revenues. The administration of such a rate requires repeated surveys and is a source of annoyance to applicant's customers. It appears that the elimination of this additive charge, applicable to four months of the year, will create no unreasonable discrimination and therefore applicant's request will be granted.

3. Public Fire Hydrant Service

The rates for public fire hydrant service on file and as proposed by applicant are the same for both tariff areas and are higher for hydrants owned by the utility than for those owned by the public authority. In each case, installation, maintenance, painting

and inspection is done at the expense of the owner. Therefore, a differential in rates according to ownership is equitable and reasonable. The present rates are those established at the beginning of applicant's operations and applicant has requested the same 75 percent increase as for other rates and charges. Without any evidence available as to the cost of rendering service for fire protection in conjunction with the primary service of water for residential and other purposes, it becomes necessary to establish rates for fire hydrant service on a more or less arbitrary basis. One criterion for determining rates is the value of the service rendered. The application of a straight percentage increase to initial, arbitrarily determined rates may produce unreasonable results. Accordingly, in the order which follows, the rates for public fire hydrant service will be determined by the exercise of informed judgment to arrive at results which will be fair and reasonable to both the utility and the beneficiaries of the service rendered.

In any event, it is incumbent upon applicant to charge and collect for the service rendered at the authorized rates without deviation. If necessary, recourse may be had to the appropriate court of the land to enforce payment of the proper charges made to the fire protection agencies concerned.

Amount of Deposit to Establish Credit

Applicant has also requested authority to increase the amount to establish credit as provided in Section A of its Rule and Regulation No. 7 now on file. At the present time all service is being rendered at flat rates, charges for which are collectible in advance, so there is little or no occasion to apply the rule at all. The same will be generally true for the future, since applicant has no meter conversion program planned. In any event, the currently filed rules appear to be adequate to protect applicant against any

unusual amount of uncollectible bills and no change in rules will be authorized at this time.

Recommendations

The staff recommended that a second source of water supply, pumping unit and pressure tank for the Rosemont area should be installed and placed in operation prior to August 1, 1958 in order to satisfy the peak water supply requirements anticipated during 1958 and 1959. Applicant included such an installation in its construction budget for 1958. If not already done, these facilities should be completed and put into proper operation without delay.

The staff further recommended that applicant pay all refunds due on the Cordova main extension contract, both the 1957 and 1958 payments having been found to be in arrears. It also recommended that applicant charge for all water service at the applicable rates on file and thereby cease such tariff violations as have occurred in the failure to charge for evaporative-type coolers in use and the failure to charge and collect for public fire hydrant service at the appropriate rates.

It was also recommended by the staff that applicant file four copies of an up-to-date comprehensive service and facilities map.

Findings and Conclusions

The applicant in this proceeding is a comparatively new company operating in a relatively new area experiencing rapid development, circumstances which make it very difficult to predict the future with assured accuracy. The order herein will authorize rate schedules based on conditions estimated to prevail in the ensuing calendar year. It is realized that such rates cannot be expected to render applicant a full rate of return for the current calendar year, most of which is already past. On the other hand,

testimony introduced by the Commission staff indicated that a substantial upward trend in the rate of return will continue in the future if the amounts advanced by subdividers for main extensions are refunded exclusively under the percentage of revenue method, thereby resulting in a relatively slow increase in rate base. For the year 1959 the staff estimated that such advances would amount to about 45 percent of the depreciated utility plant. A witness for the applicant indicated that the utility is aware of the problem of financial unbalance which can be caused by such advances for construction. Applicant is placed on notice that an accumulation of an excessive ratio of such advances for construction may result in the reopening of this proceeding to inquire into the cause of such unbalance.

In view of all the evidence as discussed hereinabove, the Commission finds and concludes that the staff's estimates of operating revenues, expenses, including taxes and depreciation, and the rate base for the year 1959 are reasonable and they will be, and hereby are, adopted for the purpose of this proceeding.

The evidence demonstrates that applicant is in need of, and entitled to, increased revenue. However, the revenues which applicant's proposed rates will produce are greater than, and the resulting rate of return on applicant's investment is in excess of, those which are reasonable. Applicant's proposed rates will not be authorized.

On the basis of all the evidence before it, the Commission is of the opinion that applicant should be accorded the opportunity to earn a rate of return, on the hereinabove adopted depreciated rate base of \$94,500, of 6.5% based upon the level of business estimated to prevail in the test year 1959. We find said rate of return of 6.5% to be fair and reasonable for the purposes of this proceeding. It follows, therefore, that applicant should be

authorized to file increased rates for water service rendered in this district estimated to produce net revenues of \$6,150. To make allowance for operating expenses, depreciation and taxes, including those on income based on straight-line depreciation, gross revenues of about \$24,400 will be required, an increase of \$7,700, or approximately 46%, over those estimated to be obtainable at present rates. The rates herein authorized are designed to produce such results and the Commission finds as a fact that the increases in rates and charges authorized herein are justified and that the present rates, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

O R D E R

Citizens Suburban Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water services rendered to customers in the unincorporated areas known as Cordova Towne and Rosemont Subdivision in Sacramento County, a public hearing having been held, the Commission having been fully informed thereon, the matter having been submitted and now being ready for decision based upon the evidence and the findings and conclusions thereon expressed in the foregoing opinion,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to this Commission and to the public, to make such rates effective for all such services rendered on and after November 1, 1958.

2. Applicant shall forthwith file an appropriate application with the Internal Revenue Service of the United States Treasury Department requesting permission to change the method of accounting for depreciation of its properties from the sum-of-the-years digits method to the straight-line method for the calendar year 1958 and subsequent years for plant on which it has claimed accelerated depreciation on the sum-of-the-years digits method in the years since its incorporation in 1955. Applicant shall inform the Commission in writing within ten days after permission has been given by the said Treasury Department, including all pertinent details pertaining to the action taken by the Treasury Department. In the event that the requested permission is refused or has not been granted by January 1, 1959, applicant shall so inform the Commission in writing within ten days after such refusal and in no event later than January 10, 1959, stating what steps have been taken by applicant and the reasons given for any denial of the application made to the Treasury Department.

3. Should applicant elect to take accelerated depreciation for the year 1958 or any future year, it shall immediately report such election to the Commission, and the Commission will promptly move to adjust the rates herein authorized in such manner as it may then find to be appropriate.

4. Applicant shall inform the Commission in writing, within ten days after payment has been made to Morris Abouaf, in accordance with the agreement between him and applicant dated June 18, 1958, a copy of which was filed in this proceeding as Exhibit No. 7, and in no event shall said payment be made later than January 31, 1959.

5. Applicant shall, within sixty days after the effective date of this order, file four copies of a comprehensive map drawn to an indicated scale not smaller than 300 feet to the inch,

delineating by appropriate markings various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of the various water system properties of applicant.

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

Dated at San Francisco, California, this 29th day of September, 1958.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A
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Schedule RO-1

Rosemont Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Rosemont Subdivision located adjacent to U.S. Highway 50, approximately 11 miles east of the City of Sacramento, Sacramento County.

RATES

Per Meter
Per Month

Quantity Rates:

First	1,000 cu.ft. or less	\$ 4.00
Next	4,000 cu.ft., per 100 cu.ft. ....	.25
Over	5,000 cu.ft., per 100 cu.ft.....	.20

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 4.00
For	3/4-inch meter	5.50
For	1-inch meter	9.00
For	1 1/2-inch meter	18.00
For	2-inch meter	24.00
For	3-inch meter	45.00
For	4-inch meter	68.00
For	6-inch meter	125.00

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

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Schedule No. RO-2R

Rosemont Tariff AreaRESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as Rosemont Subdivision located adjacent to U.S. Highway 50, approximately 11 miles east of the City of Sacramento, Sacramento County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single family residence, including premises not exceeding 8,500 sq.ft. in area	\$ 4.85
a. For each additional residence on the same premises and served from the same service connection	1.75
b. For each 100 sq.ft. of area in excess of 8,500 sq.ft. ....	.045

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. RO-1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

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Schedule No. CO-1

Cordova Towne Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Cordova Towne located adjacent to U.S. Highway 50, approximately 13 miles east of the City of Sacramento, Sacramento County.

RATES

Per Meter
Per Month

Quantity Rates:

First 1,000 cu.ft. or less	\$ 3.75
Next 4,000 cu.ft., per 100 cu.ft. ....	.25
Over 5,000 cu.ft., per 100 cu.ft. ....	.20

Minimum Charge:-

For 5/8 x 3/4-inch meter	\$ 3.75
For 3/4-inch meter	5.25
For 1-inch meter	9.00
For 1 1/2-inch meter	18.00
For 2-inch meter	24.00
For 3-inch meter	45.00
For 4-inch meter	68.00
For 6-inch meter	125.00

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

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Schedule No. CO-2R

Cordova Towne Tariff AreaRESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as Cordova Towne located adjacent to U.S. Highway 50, approximately 13 miles east of the City of Sacramento, Sacramento County.

RATES

Per Service Connection
Per Month

For a single family residence, including premises not exceeding 8,500 sq.ft. in area ...	\$ 4.60
a. For each additional residence on the same premises and served from the same service connection	1.50
b. For each 100 sq.ft. of area in excess of 8,500 sq.ft. ....	.045

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

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Schedule No. 5

All Tariff AreasPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the state.

TERRITORY

The unincorporated areas known as Rosemont Subdivision and Cordova Towne, located adjacent to U.S. Highway 50, east of the City of Sacramento, Sacramento County.

RATES

Per Hydrant
Per Month

Hydrants owned and maintained by the public authority:

Wharf type	\$ 2.00
Standard type	2.25

Hydrants owned and maintained by the utility:

Wharf type	3.00
Standard type	3.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under the applicable general metered service schedule.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.