

ORIGINAL

Decision No. 57471

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 its Rates and  
 Charges for Water Service to Montara,  
 Marine View, Farallone City, Moss  
 Beach and vicinity, San Mateo County.

Application No. 39878

Graham, James & Rolph, by Boris H. Lakusta, for  
 applicant.  
Benson L. Allard, for Montara-Moss Beach Improvement  
 Association and Frank W. Grant, for Point Montara  
 Fire Protection District, protestants.  
Harold J. McCarthy and John R. Gillanders, for the  
 Commission staff.

O P I N I O N

By the above entitled application filed March 6, 1958,  
 Citizens Utilities Company of California, a corporation, seeks an  
 order of this Commission authorizing an increase in rates for water  
 service rendered in its Montara District embracing the communities  
 of Montara, Marine View, Farallone City, Moss Beach and vicinity  
 in San Mateo County.

Public Hearing

After due notice public hearings were held before  
 Examiner E. Ronald Foster at Moss Beach on June 2 and on July 17  
 and 18, 1958. About 40 local residents, mostly customers of the  
 utility, attended the hearing and a number of them testified in  
 regard to the quality of the service being rendered in protest  
 against the proposed increase in rates. A representative of the  
 local fire protection district offered considerable evidence to show  
 why the rates for public fire protection service should not be  
 increased.

Witnesses on behalf of applicant presented oral testimony and supporting exhibits respecting nearly all phases of applicant's Montara District operations and also concerning applicant's water department operations in California, as well as applicant's relations with its parent 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, both in general and the Montara District in particular.

The matter was submitted on the third day of hearing 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.<sup>1/</sup> To yield such a return, applicant proposes rates estimated to produce annual gross revenues of \$41,040 based upon the anticipated level of business during 1958, an increase of \$20,620, or 101 percent, more than the \$20,420 gross revenues estimated as obtainable for that year at the rates presently in effect.

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 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 \$15.00.

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1/ See Exhibit D of application.

Rates, Present and Proposed

The presently filed rates for general metered service and private fire protection service were authorized by the Commission's Decision No. 48622 dated May 19, 1953, in Application No. 33577, as amended, and have been in effect since June 16, 1953. Rates for public fire protection service were filed by applicant with an advice letter and were made effective May 1, 1956, by Commission Resolution No. 484. The following comparative tabulation summarizes the present rates and those proposed by applicant as set forth in Exhibit G of its application:

<u>General Metered Service</u>	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase Percent</u>
<u>Quantity Rates:</u>			
First 500 cu.ft. or less	Included in Minimum Charge		
Next 4,500 cu.ft., per 100 cu.ft.	\$ 0.40	\$ 0.80	100.0
Over 5,000 cu.ft., per 100 cu.ft.	.30	.60	100.0
<u>Minimum Charge:</u>			
For 5/8 x 3/4-inch meter	3.25	6.55	101.5
For 3/4-inch meter	3.50	7.00	100.0
For 1-inch meter	4.00	8.00	100.0
For 1 1/2-inch meter	7.00	14.00	100.0
For 2-inch meter	10.00	20.00	100.0
For 3-inch meter	20.00	40.00	100.0
For 4-inch meter	35.00	70.00	100.0

The minimum charge will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the quantity rates.

<u>Private Fire Protection Service:</u>	<u>Per Hydrant Per Month</u>		
For each customer-owned hydrant	\$ 1.25	\$ 2.50	100.0

<u>Public Fire Protection Service:</u>			
Company-owned and maintained hydrant, service pipe and fittings:			
Four-inch wharf hydrant with single outlet	3.50	7.00	100.0
Two-inch wharf hydrant with single outlet	2.50	5.00	100.0

Other than for fire protection, all service is rendered at meter rates, there being 374 metered customers reported as of December 31, 1957. Unbilled service has heretofore been offered to

a public school and for county purposes at the local airport in return for applicant's use of certain water system plant owned by these customers, which facilities applicant is acquiring through negotiations currently being completed.

At the end of the year 1957, service was being rendered to 12 large and 3 small wharf type public fire hydrants and to 5 private fire hydrants at the United States Coast Guard Station.

Public Fire Protection Service

With its advice letter No. 47 transmitting the rate schedule for public fire protection service, applicant enclosed a copy of a letter dated March 5, 1956, from the Point Montara Fire Protection District confirming the result of negotiations concerning the installation of 15 wharf type hydrants to be completed by the utility by May first of that year and accepting the rate of \$3.50 per month for 4-inch hydrants.

On the first day of hearing, the chairman of the district's Board of Fire Commissioners asked that the public fire hydrant rates be reduced rather than increased and presented the following evidence to support his position:

1. Based on the historical investment in hydrants reported by the applicant at \$4,521 (the accuracy of which he assumed) this witness asserted that with the annual service charge to the district of \$750 at the present rates it would take only about six years to amortize that total investment and at the proposed rates it would require only three years.
2. The witness pointed to a chart listing 11 fire protection districts in San Mateo County showing the respective percentages of their total budgets allocable to fire hydrant service charges and pointed out that the Point Montara district's percentage is now 9.4% with only one other higher percentage of 10.9%, and that the Point Montara percentage would be 18.8% if the proposed public fire hydrant rates were to be authorized.

3. He pointed to another chart showing that the existing public fire hydrant rates in the Montara District are higher than in any of the other four districts operated by applicant.
4. This witness testified that flow tests performed on May 21, 1958, on three fire hydrants at certain locations produced flows averaging less than 50% of those from the same hydrants tested in August 1956. He ascribed this serious difference in available flows to the discontinuance of the use of applicant's elevated storage tank near the Moss Beach school.
5. Exhibit No. 1 consists of a report made by the district's assistant fire chief concerning a drill conducted May 10, 1958, when a fire hydrant at a very important point was found to be without water. Investigation revealed that the valve between the water main and the hydrant was turned off and the valve cover buried under 8 to 10 inches of earth and asphalt, which condition had existed for a period of two months or more, according to this fire chief's opinion.

The fire commissioner expressed his fear that if the above described deterioration in service to the public fire hydrants should become known to the Board of Fire Underwriters, that body would give the district a lower rating which in turn would result in increased rates for fire insurance in the locality. He also stated that if the district were required to pay for public fire hydrant service at rates higher than those now in effect, it would necessitate the elimination of some hydrants to keep the district's budget in line. The boundaries of the fire protection district practically coincide with those of applicant's service area, according to this witness.

In support of its rates for public fire hydrant service, applicant stated that it owns and maintains the fire hydrants in this district whereas in some, if not all, of applicant's other districts the fire hydrants are owned and maintained by the fire protection agency.

On the second day of hearing, applicant introduced in evidence Exhibit No. 8 consisting of a cost of service study for fire protection. Based on various allocations of plant facilities (other than the fire hydrants themselves) used in rendering service of water to the fire hydrants, and also allocations of certain operating expenses, the study shows that the total estimated revenues in 1958 from service to public fire hydrants at applicant's proposed rates would render a rate of return of only 2.95% on the estimated depreciated rate base related to public fire protection service, as compared with a considerably higher rate of return on the balance of the facilities devoted to other service.

Other Customer Participation

A representative of the Montara-Moss Beach Improvement Association and nine other residents who have been customers of the water utility for varying periods of time protested the requested increase in water rates, partly because of dissatisfaction with the service being rendered.

In response to a request by the staff counsel, applicant introduced a report (Exhibit No. 7) covering its investigation of the complaints made by these customers, explaining the cause and the appropriate corrective action intended to be taken.

The customer's testimony and the results of applicant's investigation will be discussed briefly under the following headings:

1. Excessive Sediment. Several witnesses complained of the dirty condition of the water at various times, particularly in the winter of 1957-1958, making home laundering difficult or impossible and involving costs of running water through the meter to clear the pipes and plumber's bills for removing sediment from faucets and water heaters.

Excessive sediment in the water was due (1) to disturbing the distribution mains during periods of

water main replacement and construction projects and (2) to unusually heavy rains causing an earth slide which imperiled the settling basin and necessitated taking it out of service for some time.

The principal items of construction have been completed, the settling basin has been repaired and replaced in service, and an accelerated flushing schedule has been instituted.

2. Disrupted Service. There were alleged numerous instances of water to customers' premises being shut off without advance notice, causing considerable inconvenience to such customers in general and greater annoyance to the operator of two convalescent rest homes in the area.

Interruptions in service due to such emergencies as breaks in the water mains may be excusable but it appears that applicant has not exercised reasonable diligence in notifying customers in advance of temporarily discontinuing service for construction purposes.

Major construction has been completed and additional valves have been installed to facilitate the isolation of smaller sections of the service area when shut downs are necessary.

3. Unsafe Water. When the water is muddy the customers consider it to be unfit to drink and some boil all such water for drinking purposes and others haul water from the nearest source or buy bottled water.

Applicant contends that its water supply meets accepted public health standards. Samples of water from applicant's system are taken and analyzed regularly by the San Mateo County Public Health Department. Copies of 78 sampling reports on the bacteriological examination of water taken from a variety of points of the system during 1957 and up to June 16, 1958, accompanied Exhibit No. 7, the ratings of which were 64 good, 11 fair, none poor and 3 bad on the "Comment of Quality of Water".

The need of continued testing and more thorough supervision is indicated to insure that adequate chlorination of the several sources of water supply and proper disinfection of the water mains is accomplished.

4. Chlorine Taste. One customer testified that during several days just prior to the hearing she noticed a strong chlorine content in the water. Admitting a slight allergy to chlorine, she stated that steam from the water made her eyes run and that the family couldn't use the water for drinking purposes.

Applicant has automatic hypochlorinators at two points of intake to the distribution system. Applicant's witness testified that recommendations of the health department, based upon the routine tests, are used as a guide in the operation of the chlorinators.

It appears that more careful attention is necessary in the regulation of the chlorinators to introduce the proper amount of chlorine under varying conditions.

5. Pressure. One witness also stated that at times the pressure is so strong that it blows out the rubber washers in the taps and that such excessive pressure is not good for the hot water tanks. This testimony is similar to that of a staff engineer that a few areas are subject to excessively high water pressures which could be detrimental to customers' plumbing fixtures and appliances.

Applicant maintains that pressures within the system are within the limits of the requirements of the Commission's General Order No. 103.

In order to eliminate operating pressures in excess of the limit specified in the order mentioned, the staff engineer recommended that applicant undertake to divide its distribution facilities into additional pressure zones as soon as possible or to take other appropriate steps.

#### Income Taxes

One witness pointed out that the applicant would receive as net operating income only approximately one-half of the additional gross revenue resulting from the proposed rates, since the other half would be paid out as income taxes. This is inevitable because of applicant's corporate structure and the Montara District is considered as a part of applicant's over-all operations for income tax purposes.



Summary of Earnings

The respective showings of applicant and the Commission staff are compared in the following tabulation extracted from Exhibits No. 4 and No. 9 in this proceeding:

SUMMARY OF EARNINGS  
YEAR 1957 RECORDED, ADJUSTED AND ESTIMATED

Item	Present Rates				Estimated Proposed Rates CPUC Staff
	Recorded		Adjusted		
	Applicant	CPUC Staff	Applicant	CPUC Staff	
Operating Revenues	\$19,381	\$19,381	\$19,381	\$ 19,440	\$ 39,090
<u>Operating Expenses</u>					
Other than Depr. & Taxes	11,264	11,264	11,970	11,935	11,935
Depreciation	3,342	3,342*	3,408	4,000	4,000
Taxes - General	1,462	1,462*	1,479	1,990	1,990
Income Taxes:					
(S.L. Tax Depreciation)	1,036	843*	610	(860)	9,740
(Accel. Tax Depr.)	-	-	-	(2,170)	8,430
Total Operating Expenses:					
(S.L. Tax Depreciation)	17,104	16,911	17,467	17,065	27,665
(Accel. Tax Depr.)	-	-	-	15,755	26,355
<u>Net Revenue:</u>					
(S.L. Tax Depreciation)	2,277	2,470	1,914	2,375	11,425
(Accel. Tax Depr.)	-	-	-	3,685	12,735
Rate Base (Depreciated)	99,033		99,040	127,000	127,000
<u>Rate of Return:</u>					
(S.L. Tax Depreciation)	2.29%		1.93%	1.87%	9.00%
(Accel. Tax Depr.)			-	2.90%	10.03%

\* From Exhibit No. 3, Chapter 4, Table 4-B.  
(Red Figure)

YEAR 1958 ESTIMATED

<u>Item</u>	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 20,420	\$ 20,560	\$ 41,040	\$ 41,340
<u>Operating Expenses</u>				
Supply, Power & Purif.	4,090	4,700	4,090	4,700
Transmission & Distrib.	3,080	2,250	3,080	2,250
Accounting, Coll. & Prom.	2,006	2,350	2,150	2,350
Admin., Gen'l. & Misc.	4,132	2,890	4,132	2,890
Subtotal	<u>13,308</u>	<u>12,190</u>	<u>13,452</u>	<u>12,190</u>
Depreciation	4,187	4,200	4,187	4,200
Taxes - General	1,650	2,030	1,650	2,030
Income Taxes:				
(S.L. Tax Depreciation)	25	(540)	10,812	10,670
(Accel. Tax Depreciation)	-	(1,730)	-	9,480
Total Operating Expenses:				
(S.L. Tax Depreciation)	19,170	17,880	30,101	29,090
(Accel. Tax Depreciation)	-	16,690	-	27,900
<u>Net Revenue:</u>				
(S.L. Tax Depreciation)	1,250	2,680	10,939	12,250
(Accel. Tax Depreciation)	-	3,870	-	13,440
Rate Base (Depreciated)	125,009	131,600	125,009	131,600
<u>Rate of Return:</u>				
(S.L. Tax Depreciation)	1.00%	2.04%	8.75%	9.31%
(Accel. Tax Depreciation)	-	2.94%	-	10.21%

(Red Figure)

1. 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.

Beginning with the year 1954, applicant has taken advantage of accelerated depreciation permitted by the provisions of Section 167 of the 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 acceleration.

In support of its testimony, applicant presented Exhibit No. 5 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 test 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. 6 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.

There are other substantial differences shown in the summary of earnings as presented by the applicant and by the staff for the estimated year 1958, which will be discussed under the following headings.

## 2. Revenues

It is noted that the two estimates of operating revenues at both present and proposed rates are practically identical, the staff's estimates being very slightly higher than applicant's. Applicant based its estimates on an average of 398 metered customers while the staff's estimate was 393. Based on an upward trend shown by plotting water usage per customer for the past several years, the staff used a somewhat higher monthly average water use of 625 cubic feet compared with applicant's average of 586 cubic feet per month for the year 1958.

It may be shown that the water use table included in the staff's report as Table 12-A, summarized from water use tabulations supplied by applicant for the year 1957, indicates an average monthly use for that year of 610 cubic feet per customer, whereas applicant shows an average consumption of 582 cubic feet per month in relation to its revenue estimates for that year.

From a review of all of the evidence concerning this subject and of the cross-examination pertaining thereto, the staff's estimates of operating revenues appear to be reasonable and they will be used.

### 3. Operating Expenses

A comparison of the two showings for the year 1958 reveals some differences in the individual items and groups of expenses.

The staff's estimate of operation and maintenance expenses is slightly greater than applicant's at present rates and very slightly smaller at proposed rates.

Administrative, general and miscellaneous expenses as estimated by the staff are \$1,242 less than applicant's. About \$400 of this difference results from the variation in allocations of a number of classifications of expense involved in applicant's over-all operations at Stamford, Connecticut and Redding, California. The balance of the difference occurs in the several classifications of expense charged directly to the Montara District. While the staff included some direct expenses not shown by applicant, it disallowed other items, including the costs incurred in connection with the rehearing of the 1952-1953 rate increase proceeding and the appeal to the Supreme Court, the exclusion of these costs being in accordance with policy established in previous decisions of this Commission.<sup>2/</sup>

### 4. Depreciation

The composite rate for depreciation accruals developed by applicant for the year 1958 was 2.64% as compared with the staff's determination of 2.53%. The effect of the staff's lower composite rate and other factors which would produce a smaller depreciation expense was more than offset by the staff's method of weighting the additions to plant. The net result shows depreciation expense estimated by the staff as \$4,200 as compared with \$4,187 estimated by applicant.

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<sup>2/</sup> See Decision No. 50250, July 6, 1954, in Application No. 33581; and Decision No. 57177, August 14, 1958, in Application No. 39674.

#### 5. Taxes

The staff's estimate of taxes, other than those based on income, is \$380 more than applicant's, largely due to higher ad valorem taxes resulting from the staff's method of weighting additions for the year 1958.

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 estimate of income taxes, using straight-line depreciation, being \$142 less than applicant's.

#### 6. Rate Base

Except as revised by the staff to account for \$300 of retirements, both applicant and staff used the same total amount of \$27,400 as the estimated cost of facilities planned to be added during 1958, which include the installation of a 100,000-gallon tank to supplement the main reservoir, the laying of 2,200 feet of 8-inch water mains, the acquisition of two wells and pumping plants at the airport and of some booster pumps near the Moss Beach school, and other items. The evidence shows that all of these facilities will have been installed and put into operation by the end of 1958.

The difference of nearly \$6,600 between applicant's estimated depreciated rate base (as revised during the course of the hearing) and that estimated by the staff is largely due to the methods of weighting the cost of the items of plant to be added during 1958. While the applicant gave all of those items a half-year's weighting, the staff gave a full year's weighting to \$19,800, or about two-thirds of the total facilities which are considered as nonrevenue producing plant.

The staff's treatment of the various elements of rate base appears to be fair and reasonable and the amount of \$131,600 developed by the staff for the year 1958 is hereby adopted as a reasonable rate base upon which to test the reasonableness of rates proposed by the applicant and of rates to be authorized in this proceeding.

#### 7. Rate of Return and Trend

As shown in Exhibit D of the application, the proposed rates were estimated to produce gross revenues of \$41,040 and net revenues of \$10,361, or a rate of return of 7.50% on an average depreciated rate base of \$138,141 for the estimated year 1958. As originally presented in Table 11-A of applicant's Exhibit No. 4, with relatively minor changes in certain expenses, the same gross revenues are shown to render similar net revenues of \$10,939, but a rate of return of 8.58% on a smaller estimated average depreciated rate base of \$127,486 for the year 1958. During the course of the hearing, applicant agreed to two more downward revisions in the rate base resulting in an ultimate average depreciated rate base of \$125,009 and on that rate base the estimated rate of return is shown to be 8.75%.

When applicant's treasurer was asked if such indicated increase in the rate of return would change his thinking in regard to the proposed rate schedules, the answer of this witness was to the effect that applicant would not earn as much as 8.75% even if the requested rates were granted, due to the expected attrition in the rate of return. He expressed his doubt that applicant would earn more than 7% in any one calendar year even if the proposed rates were put into effect immediately.

Applicant's estimates show a reduction in the rate of return at present rates from 1.93% in 1957 to 1.00% in 1958. On the other hand, the staff has made adjustments in its estimated results of operation for the years 1957 and 1958 in an effort to eliminate all factors, other than those due to normal growth, which influence the trend in the rate of return, and on the basis of straight-line tax depreciation, the staff's estimates of the rates of return for the two years show an increase of 0.17% at present rates and 0.31% at proposed rates. Table 11-B of the staff's Exhibit No. 9 shows that the slightly upward trend in the rate of return is the result of an increase in revenue, a decrease in total expenses and a decrease in rate base when analyzed on an average customer basis.

#### Proposed Rate Schedules

Applicant's request for a practically uniform increase of 100% in rates for all schedules requires some comment. In general it may be said that the cost of adequate and satisfactory service of water in a sparsely occupied area such as applicant's Montara District must be relatively higher per customer or unit served than in more densely populated areas because of the longer pipelines involving a greater investment and higher maintenance and operation expenses per service. Although largely supplied by gravity, storage reservoirs and pumping facilities are necessary to provide for emergencies and peak demands.

##### 1. General Metered Service.

The form of rate structure for this service appears to be generally appropriate for the character of usage as revealed by the water use table. However, in the design of the authorized rates,



consideration will be given to the design of quantity rates for the larger blocks which will tend to encourage, rather than deter, the use of additional water for flowers and gardens.

2. Private Fire Protection Service.

The record herein is silent as to any opposition to the proposed increase in rates or the value of the service rendered by applicant to customer-owned hydrants for private fire protection. While equity requires that this service bear some share of the increase in revenue which may be authorized, the rate per hydrant will be set in proper relation to the rates for fire hydrants which are owned and maintained by the utility for public fire protection.

3. Public Fire Protection Service.

Where a privately owned public water utility is expected to provide hydrants and render public fire protection service in conjunction with its primary service of water for residential and other purposes, the public fire protection agency should pay for the service rendered to it and, in turn, collect through taxes for the benefits extended to the property owners in the area. Proper rates depend upon such considerations as the type and size of hydrants installed, the size of the water mains to which they are connected, whether the hydrants are owned and maintained by the utility or by the fire protection agency, and the relative value of the service rendered as measured by tests of flows from the hydrants. Provision for capacity of the water supply, pumping and storage facilities in excess of requirements for purposes other than fire protection, as well as the water actually used for fire fighting purposes, involves an investment and operating expenses for which the utility should be compensated.

The cost of service study for fire protection introduced by applicant as Exhibit No. 8 purports to show that the estimated revenues from fire hydrants in 1958 at the proposed rates would render a rate of return of less than 3% on the related depreciated rate base as compared with 8-3/4% return on the entire rate base. Although informative, the study is not necessarily conclusive as the results depend upon the allocation methods used.

Of major importance to the fire district is the reduction in flow of water from the fire hydrants as related previously herein. It is not clear from the present record whether the installation of the 8-inch line and the rehabilitation of the booster pumps planned to be done this year will restore the flow from the hydrants to the amounts delivered from them when they were tested in 1956.

However, in the present situation the boundaries of the fire district coincide closely with those of applicant's service area and there appear to be no existing properties which would benefit from the protection from the public fire hydrants other than those which use water from applicant's system to some extent. Therefore the costs of public fire protection service will be borne in general by the same beneficiaries, whether through the payment of water bills or through payment of taxes assessed by the fire protection district.

Based on a review of all of the pertinent evidence, it appears that the rates for public fire hydrants should be increased to \$4.25 and \$3.00 per hydrant per month for 4-inch and 2-inch hydrants, respectively.

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. No showing was made that applicant has experienced any abnormal losses through noncollection of water bills in this district. When diligently and properly applied, 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.

Findings and Conclusions

In view of all of 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 1958 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 revenues. 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.

Applicant claims, and offered considerable testimony, that it is essential that it earn a rate of return of 7½%. Much of the testimony concerned substantial amounts expended by applicant during recent years in improving the water supply, storage and distribution facilities in its Montara District. The record now before us clearly demonstrates that applicant has improved service to its customers in this district. However, the numerous service protests registered at the hearing indicate that further improvement is needed.

In the order which follows, applicant will be required to take such steps as may be necessary so that operating pressures do not exceed those specified in the Commission's General Order No. 103. Applicant will also be required to report to the Commission when such steps and certain other additions to the plant facilities have been accomplished.

We are aware of the changes in economic conditions and of the increases in interest levels which have taken place since water rates for this district were last established in 1953. The Commission has considered all factors and 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 \$131,600, of 6.5% based upon the level of business estimated to prevail in the test year 1958. We find said rate of return of 6.5% to be fair and reasonable for this district of applicant's operations. 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 about \$8,550. To make allowance for operating expenses, depreciation and taxes, including those on income based on straight-line depreciation, gross revenues of approximately \$33,300 will be required, an increase of \$12,740, or 62%, 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 Utilities Company of California, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water services rendered to customers in its Montara District, 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 16, 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 the properties in its Montara District 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 December 31, 1953. 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. Beginning with the year 1958, applicant shall determine the accruals for depreciation by dividing the original cost of utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant; applicant shall review the accruals when major changes in utility plant composition occur and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.

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.

6. Within ninety days after the effective date of this order, applicant shall report to the Commission in writing what steps it proposes to take to eliminate pressures in excess of the requirements of the Commission's General Order No. 103.

7. Applicant shall report to the Commission in writing, including pertinent description and costs of the facilities concerned, within thirty days after each of the following items of improvements and additions to plant shall have been accomplished and the facilities placed in proper operation, all of which shall be completed not later than June 30, 1959:

- a. Repairs and rehabilitation of the wells, pumping units and appurtenances at the airport.
- b. Repairs and rehabilitation of the booster pumps, valves and appurtenances at the location near the Moss Beach school.
- c. Installation of a storage tank of at least 100,000 gallons capacity.
- d. The facilities necessary to carry out the requirements of the foregoing paragraph 6 of this order.

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

Dated at San Francisco, California, this 15th day of October, 1958.

[Signature]  
President

[Signature]

[Signature]

[Signature]  
Commissioners

APPENDIX A  
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Schedule No. MO-1

Montara Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. or less .....	\$ 5.50
Next 4,500 cu.ft., per 100 cu.ft. ....	.55
Over 5,000 cu.ft., per 100 cu.ft. ....	.35
 Minimum Charge:	
For 5/8 x 3/4-inch meter .....	5.50
For 3/4-inch meter .....	7.00
For 1-inch meter .....	8.00
For 1 1/2-inch meter .....	14.00
For 2-inch meter .....	20.00
For 3-inch meter .....	40.00
For 4-inch meter .....	60.00

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. MO-4

Montara Tariff Area

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished for private fire hydrants.

TERRITORY

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

RATE

	<u>Per Month</u>
For each hydrant .....	\$2.00

SPECIAL CONDITIONS

1. Hydrants, service pipes and connections therefor will be furnished, installed and maintained at the cost of the customer.
2. If a distribution main does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed at the cost of the applicant. Such cost shall not be subject to refund.
3. For water delivered for other than fire extinguishing purposes charges will be made at the quantity rates under Schedule No. MO-1, General Metered Service.
4. The utility 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.

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Schedule No. MO-5

Montara Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

Per Month

For each 2-inch wharf hydrant .....	\$ 3.00
For each 4-inch wharf hydrant .....	4.25

SPECIAL CONDITIONS

1. The cost of installation and maintenance of hydrants will be borne by the utility.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. For water delivered for other than fire extinguishing purposes charges will be made at the quantity rates under Schedule No. MO-1, General Metered Service.
4. The utility 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.