

ORIGINAL

Decision No. 58876

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
NORTH LOS ALTOS WATER COMPANY, a
corporation, for Authority to Increase
its Rates and Charges for its Water
System Serving a Portion of the City
of Los Altos, and Adjacent Unincorpo-
rated Territory, in Santa Clara County.

Application No. 40667

Graham, James & Rolph, attorneys, by Boris H. Lakusta,
for applicant.
Hardy, Carley, Thompson & Love, attorneys, by Leon A.
Carley, for T. C. Binkley, former owner of applicant,
interested party.
John M. R. Hope, chief administrative officer, and
Dexter D. Ahlgren, city engineer, for City of Los
Altos, interested party.
Russell M. Ihrig and William A. Best, in propria
personae, protestants.
William C. Bricca, and John R. Gillanders, for the
Commission staff.

O P I N I O N

By the above-entitled application filed December 15, 1958,
North Los Altos Water Company, a corporation, seeks authority of this
Commission to increase its rates and charges for water service rendered
in portions of the cities of Los Altos, Mountain View and Palo Alto
and adjacent unincorporated territory in Santa Clara County, by a
gross annual amount of \$58,294.

Public Hearings

Public hearings were held before Examiner E. Ronald Foster
at Los Altos on March 26 and at San Francisco on March 27, 1959. On
the second day of hearing, the matter was submitted on the record,
subject to the late filing by applicant of one exhibit and by the
Commission staff of two exhibits. The filing of those exhibits was
completed on May 27, 1959.

In the meantime, on April 27, 1959, counsel for applicant had filed a "Memorandum of Differences between Applicant Company and Staff of Public Utilities Commission", together with a petition requesting the Commission to set aside the submission in this proceeding and to reopen the matter. By the Commission's order dated May 19, 1959, the matter was reopened only for the purpose of receiving and considering the said memorandum, together with similar memoranda in reply thereto to be filed not later than May 29, 1959, by other parties or appearances, should they so desire, and on which latter date the matter was to be again submitted for decision. The only reply received was one filed by the staff counsel on May 29, 1959. The matter 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 per cent rate of return on its rate base. Exhibit D of the application and also exhibits presented by applicant at the hearing indicate that the total operating revenues estimated at the rates proposed in the application would be approximately 62 per cent more than the corresponding revenues obtainable at the present rates.

Rates, Present and Proposed

The presently-filed rates for general metered service and for public fire hydrant service have been in effect since March 21, 1955. Applicant proposes no change in the currently effective tariff schedule for public fire hydrant service. The following comparative tabulation summarizes the present rates and charges and those proposed by applicant for general metered service:

General Metered Service

Quantity Rates			Per Meter Per Month		
			Present Rates	Proposed Rates	Increase
First	600 cu. ft. or less		\$ 1.90	\$ 3.75	97.4%
Next	2,400 cu. ft., per 100 cu. ft.		.25	.35	40.0
Next	20,000 cu. ft., per 100 cu. ft.		.20	.30	50.0
Over	23,000 cu. ft., per 100 cu. ft.		.15	.30	100.0
<u>Minimum Charge</u>					
For	5/8 x 3/4-inch meter		1.90	3.75	97.4
For	3/4-inch meter		2.75	5.50	100.0
For	1-inch meter		4.00	7.50	87.5
For	1 1/2-inch meter		6.00	10.00	66.7
For	2-inch meter		10.00	15.00	50.0
For	3-inch meter		20.00	30.00	50.0

The next tabulation shows a comparison of the cost of metered service for several usages, computed on a bimonthly basis and assuming service through a 5/8 x 3/4-inch meter:

:Bimonthly Consumption :		Bimonthly Billing			:
: Cubic Feet :		Present Rates	Co. Proposed Rates	Increase:	
0 to 1,200		\$ 3.80	\$ 7.50	97.4%	
1,600		4.80	8.90	85.4	
2,000		5.80	10.30	77.6	
3,000		8.30	13.80	66.3	
4,000		10.80	17.30	60.2	
4,400 (average)		11.80	18.70	58.5	
5,000		13.30	20.80	56.4	
6,000		15.80	24.30	53.8	
10,000		23.80	36.30	52.5	
20,000		43.80	66.30	51.4	
25,000		53.80	81.30	51.1	
46,000		95.80	144.30	50.6	
50,000		101.80	156.30	53.5	
75,000		139.30	231.30	66.0	

Customer Participation

Several customers testified in protest to the proposed increase in water rates, particularly the minimum charge for the usual 5/8 x 3/4-inch metered service. Most of their opposition was predicated on the deficiency of the water supply in 1957, when applicant put a rationing program into effect. It was the consensus of these witnesses, although not supported by concrete evidence, that the rules for the regulation of the available supply of water had the psychological effect of increasing the total quantity of water used for watering lawns and gardens during that period.

The city engineer for the City of Los Altos pointed to the fact that during the year 1957 the applicant had purchased over 2½ million cubic feet of water from neighboring systems operated by the City of Mountain View and California Water Service Company^{1/}, (compared with total deliveries for 1957 of approximately 34 million cubic feet). According to this witness, the purchased water had been obtained through two-inch connections. To assure an adequate water supply during periods of peak demands, particularly for fire protection, he recommended that the size of the interconnections be increased to provide additional stand-by capacity.

This same witness referred to recent annexation by the City of Mountain View of certain areas wherein the municipality had extended water mains parallel to the existing mains of the applicant. He predicted additional annexations and that eventually all presently unincorporated territory will be annexed either to the City of Mountain View or to the City of Palo Alto, both of which cities operate municipal water systems. However, although applicant may be faced with the problem of abandoning certain water mains in these areas, it was his contention that such losses should not be a justifiable basis for increasing rates to customers served by applicant in the City of Los Altos.

The fire chief of the Los Altos Fire District, which furnishes protection for the City of Los Altos and various unincorporated areas, testified that since 1956 the water system had been improved considerably, although the fire hydrant flows had not been increased to the standards set by the National Board of Fire Underwriters. In addition to larger mains and more fire hydrants, this witness testified to the need for adequate supply and storage facilities.

Summary of Showings

Applicant's detailed results of operation report, Exhibit No. 2, was prepared prior to the filing of its application in December.

^{1/} Also, during 1958 applicant purchased nearly 1½ million cubic feet of water.

1958. The summary of earnings, Table 9-A thereof, is the same as Exhibit D attached to the application and shows the following estimated rates of return:

	<u>Estimated Rate of Return, Per Cent</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
1957 Recorded	6.13%	-
1958 Actual ^a	3.90%	-
1958 Adjusted	3.46%	11.88%
1959 Estimated	0.43%	7.50%

^a Based on 10 months recorded and 2 months estimated.

Subsequently, applicant revised its construction budgets for both years 1958 and 1959. The effect of these and certain other revisions were incorporated in a supplemental report, Exhibit No. 3. Applicant's Exhibit No. 6 contains a further revision of the weighted average depreciated rate base for the year 1959, due to a substantial increase in working capital. The latter exhibit also shows the development and use of a year-end rate base for 1959.

The respective showings of applicant and the Commission staff for the year 1959 are compared in the following tabulations condensed from applicant's Exhibit No. 6 and the staff's Exhibit No. 9 revised to include the effect of adding \$880 for purchased water.

<u>Item</u>	<u>Year 1959 Estimated</u>				
	<u>Present Rates</u>		<u>Proposed Rates</u>		
	<u>Applicant</u>	<u>Staff</u>	<u>Average</u>	<u>Year End</u>	
			<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>
Operating Revenues	\$ 96,496	\$104,070	\$156,095	\$166,960	\$156,095
<u>Operating Expenses</u>					
Operating & Maint.	55,699	49,190	55,699	49,190	55,699
General Taxes	13,816	12,000	15,008	12,100	15,923
Depreciation	20,850	18,130	20,850	18,130	22,591
Amort. of Prop. Losses	2,092	2,090	2,092	2,090	2,092
Income Taxes	25	4,370	23,685	35,540	22,256
Total	<u>92,482</u>	<u>85,780</u>	<u>117,334</u>	<u>117,050</u>	<u>118,561</u>
Net Operating Revenue	<u>4,014</u>	<u>18,290</u>	<u>38,761</u>	<u>49,910</u>	<u>37,534</u>
Depreciated Rate Base	500,167	461,100	500,167	461,100	539,136
Rate of Return	0.80%	3.97%	7.75%	10.82%	6.96%

The significant differences between the estimates submitted by the applicant and by the staff will be discussed under the headings indicated.

1. Operating Revenues

The considerable differences between the two estimates of operating revenues are due mostly to dissimilar methods of estimating the average consumption of water by the metered customers and partly to the difference in the estimated average number of such customers. The staff's estimate of an average number of 1,386 metered customers for the year 1959 appears reasonable and will be used hereinafter.

Applicant based its 1958 and 1959 estimates of average consumption per customer on the average for the year 1957 since the average of rainfall and temperature for that year were very close to the long-term averages for the years 1929 through 1957, as determined from data supplied by the U. S. Weather Bureau for its Palo Alto Station, Exhibit No. 12. On this basis, applicant's engineer witness determined the average annual consumption per metered customer to be 25,700 cubic feet and the corresponding average annual revenue to be \$68.00, which results he used in estimating revenues from metered service at present rates for both years 1958 and 1959.

The staff engineer, based on his study of unit consumption since 1951, developed an upward trend which he continued into the year 1959, and thereupon he estimated general metered revenues, using average annual consumptions per customer and corresponding average annual revenues somewhat higher than applicant. In determining the upward trend, this witness made use of the metered sales in 1958. The weather data show that, while total rainfall for the year 1958 was much greater than normal, during the seven significant water consumption months of May through November the precipitation was far less

than normal, and also that the average temperatures during 1958 were generally about two or three degrees higher than the mean for the long-term period 1929-1957. Therefore, it is evident that 1958 was an abnormal year, which largely accounts for the fact that average consumption and the resulting average revenue from metered sales in that year were appreciably above those for recent prior years.

However, the record shows that 1957 was a year of water supply shortage and rationing for applicant's system, the effects of which on consumption and revenue were not given consideration in applicant's estimates. On the other hand, a review of the statistics pertaining to water consumption during 1955, 1956 and 1957 (prior to which time the utility was not certificated and data pertaining to its operations are unreliable) does not indicate any definite trend in the average consumption of water. For estimating the metered revenues for 1959 there will be adopted for the purposes herein an average annual consumption of 26,100 cubic feet of water per metered customer. At the present rates, the estimated corresponding average annual revenue would be about \$69.00, which result is considered reasonable and will be adopted.

Applicant's estimate of metered revenues at proposed rates is 63.9 per cent more than at present rates whereas the staff's estimate is 62.2 per cent greater. The method used by the staff is considered the more accurate and will be employed in the estimation of such revenues at the applicant's proposed rates and at the rates hereinafter authorized.

In view of recorded revenues of \$2,512 from public fire protection service for the year 1958 (Exhibit No. 10), applicant's estimate of \$3,200 for the year 1959 appears to be more realistic than the staff's estimate and it will be used in arriving at the results of operation hereinafter adopted.

2. Operation and Maintenance Expenses

Applicant's estimated costs of operating the water system are substantially higher than the staff's, the differences between the two estimates for the year 1959 consisting of the following elements:

<u>Nature of Expense</u>	<u>Applicant</u>	<u>Staff</u>	<u>Difference</u>
Payroll for Oper. & Maint.	\$13,152	\$12,830	\$ 322
Purchased Power for Pumping	18,400	19,230	(830)
Purchased Water	1,100	880	220
Transportation	953	800	153
Lowering Mains	1,250	200	1,050
Cust. Acct'g. & Misc.	2,005	1,160	845
Uncollectible Accounts	1,145	460	685
Materials and Misc. Serv.	2,630	1,080	1,550
Sales Promotion	120	0	120
Subtotal	40,755	36,640	4,115
Administrative & General	14,944	12,550	2,394
Total	55,699	49,190	6,509

(Red Figure)

Water must be purchased for a small number of customers located in a portion of the system which is not connected with applicant's well supply. To the extent that water can be produced from applicant's existing wells and those included in the construction budget for 1959, the balance of the customers normally will be supplied with pumped water and any excess of such requirements over the available well supply must also be purchased, as in past years. Therefore, the costs of purchased power for pumping and of purchased water may be considered together. Based on the same estimated total water requirements hereinabove adopted for revenue purposes, an amount will be adopted as the estimated combined cost of acquiring that quantity of water, partly purchased and the balance pumped.

To cover the cost of lowering some existing pipe mains, necessitated by regrading of streets, applicant's engineer witness amortized the total estimated cost over a four-year period. The staff engineer amortized, over a ten-year period, only that portion of the estimated cost which is chargeable to expense, since the additional

cost to reach the final depth of the main properly should be charged to utility plant. The staff's method will be followed, except that a five-year amortization period will be used as more reasonable.

A review of the evidence indicates that the staff's estimated amount for customer accounting, including such miscellaneous items as telephone and postage costs, is too low, and a larger amount for this item will be adopted as more realistic. On the other hand, applicant's estimated amount for uncollectibles cannot be justified and the staff's estimated amount for this item will be adopted.

The remaining items of payroll, transportation, materials and miscellaneous service involve, among other things, the maintenance and repair of the water supply, pumping and distribution facilities. Applicant's witness based his estimates of these costs, in general, on the recorded experience for the most recent year or two and thus arrived at amounts greater than those developed by the staff's witness who testified that he had normalized such costs as incurred over a longer past period. The record shows that since acquiring the water system in 1956, applicant has spent considerable sums, particularly in 1957 and 1958, to rehabilitate the storage facilities, pumps, distribution mains and services. It further appears that such deferred maintenance is unlikely to continue at as high a level in the future. Therefore there will be adopted for these items an amount approximately midway between the two estimates.

For the entire group of operation and maintenance expenses, exclusive of administrative and general expenses, there will be adopted an amount of \$38,070 for the purposes of this proceeding.

The staff's estimate of administrative, general and miscellaneous expenses is lower than applicant's. The principal reason for the difference lies in the differing methods used in estimating the construction credit element of the mutual service charges allocated from the Stamford and Redding offices. Most of the rest of the difference occurs in the estimated amounts for rent of proposed well sites. A review of the staff's justification of its results, which were not challenged by cross-examination, leads to the conclusion that the staff's methods used in estimating this class of expenses are consistent and realistic. The staff amount appears reasonable and will be adopted.

3. General Taxes

The two estimates of general taxes are in close agreement, except for local franchise taxes. Applicant computed local franchise taxes as two per cent of total gross revenues. The staff computed this tax as two per cent of only those revenues derived from unincorporated territory in Santa Clara County on the basis of Ordinance No. 650 adopted October 14, 1952, which granted to applicant's predecessor a franchise to construct, operate and maintain a water system under, upon and over the public streets and roads of said county. A certificate of public convenience and necessity to exercise such franchise was granted by the Commission's Decision No. 53991, dated October 30, 1956, in Application No. 35469. Since the adoption of the ordinance in 1952, a considerable portion of applicant's service area has been included within the boundaries of the newly incorporated City of Los Altos and also by annexations, within the boundaries of the cities of Mountain View and Palo Alto, leaving only a minor portion in unincorporated territory.

At the hearing, applicant's expert legal witness testified that the total franchise tax liability had not been changed by the inclusion within city limits of portions of the previously unincor-

porated territory which, in effect, merely served to require an allocation of the franchise tax between the county and the three cities. As to such total tax liability and its allocation, this witness expounded the "Dinuba formula" as set forth in County of Tulare v. City of Dinuba (188 Cal. 664). He further testified that the Dinuba formula requires a payment of two per cent of the same percentage of the utility's gross revenues as the percentage of its total plant which is installed on public streets and roads.

Table 6-B of Exhibit No. 2 shows, by classification of accounts, the total utility plant in service as of December 31, 1958. The amounts shown there for transmission and distribution mains, services, meters and hydrants, in accounts 343, 345, 346 and 348, respectively, represent 61 per cent of total plant. It was stipulated by counsel for both applicant and staff that the said 61 per cent should be made to apply to the gross revenues for the determination of the local franchise tax liability for the purposes of this proceeding.

Therefore the local franchise taxes will be computed as 61 per cent of two per cent of the gross revenues herein adopted as obtainable for the year 1959 at present rates, applicant's proposed rates and the rates hereinafter authorized. To the respective amounts of such taxes there will be added the ad valorem and payroll taxes as estimated by the staff for the year 1959, to arrive at the total amounts of general taxes herein adopted as reasonable.

4. Depreciation

The staff's estimate of depreciation is less than applicant's, due partly to the use of somewhat longer remaining lives for some classifications of utility plant and partly to differences in the treatment of certain retirements. The staff's estimate is considered reasonable and will be used for the results of operation hereinafter adopted.

5. Taxes on Income

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 and state corporation franchise taxes computed at a rate of 4 per cent. The Commission takes official notice of the fact that the state corporation franchise tax rate has been increased from 4 per cent to 5½ per cent and the results herein adopted reflect such increase.

Beginning with the year 1956, 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 intends to abandon its past practice in this respect and to return to the method of calculating depreciation expenses on the straight-line basis in view of the Commission's decisions in recent proceedings wherein the applicant gained no advantage from such acceleration.

In support of its testimony, applicant presented Exhibit No. 4 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. The commitment shows that for the years 1959 and 1960 applicant will use straight-line depreciation for all plant additions, including those made in the years 1955 and prior, for which straight-line depreciation was taken during the years 1956 through 1958; those made in the years 1956 and 1957, for which the applicant claimed accelerated

depreciation computed by the sum-of-the years digits method, for the tax years 1956 through 1958; and those made during the year 1958 for which applicant claimed accelerated depreciation computed by the declining balance method, for the tax year 1958.

Late-filed Exhibit No. 13 is a copy of a letter dated April 3, 1959, from the U. S. Treasury Department addressed to applicant's tax consultants, wherein reference is made to an application dated February 9, 1959, requesting permission for the applicant in this proceeding to change from the sum-of-the years digits method of computing depreciation to the straight-line method, to become effective for the year ending December 31, 1959. The requested permission was granted contingent upon the agreement of the applicant to certain terms and conditions. Late-filed Exhibit No. 13, Supplemental, is a copy of a letter addressed to the Commissioner of Internal Revenue, dated May 18, 1959 and signed by applicant's treasurer, accepting the said terms and conditions set forth in the letter of April 3, 1959.

The question as to what rate treatment should be accorded to accelerated depreciation tax accruals and reserves for deferred taxes is being investigated by the Commission under Case No. 6148. Until such case is decided, applicant should keep the Commission informed as to its election of computing depreciation expense for income tax purposes for the years subsequent to 1959 by January 1st of each year until a final decision has been issued in Case No. 6148 and the Commission will promptly move to adjust the rates herein authorized in such manner as may be found appropriate. For the purpose of this decision only, pending final decision by this Commission on the treatment to be accorded accelerated depreciation for rate-making purposes, the tax expense for rate-making purposes herein will be determined on the basis of straight-line depreciation after crediting to the Federal

Income Tax Account interest calculated on the derived reserve for income taxes at the fair rate of return on applicant's rate base herein adopted. The interest credit in this proceeding will be \$100.

Applicant also introduced Exhibit No. 5 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.

The staff's method of computing taxes based on income will be adopted for the test year 1959, adjusted for the current 5½ per cent state corporation franchise tax rate, the interest credit on the derived reserve for income taxes as mentioned above, and with appropriate amounts determined on the basis of the revenues and expenses as revised herein.

6. Rate Base

Applicant's estimate of the weighted average depreciated rate base is higher than the staff's estimate for 1959, the difference consisting of the following components:

Utility Plant	\$31,883
Depreciation Reserve	(9,795)
Non-Operative Plant	2,100
Working Capital	14,891
Rounding Off	(12)
Total	\$39,067

(Red Figure)

The difference of \$31,883 in utility plant is mainly attributable to different methods of weighting. Applicant has weighted

its contemplated 1959 net additions according to the estimated date of completion of construction of the various items. One item of \$7,500 originally scheduled to be completed in January had not even been commenced at the time of the hearing at the end of March. Furthermore, applicant takes interest during construction on most of these projects and historically does not account for such additions until late in the year. The staff took cognizance of these practices and weighted the 1959 construction program as being centered around September. The staff's method of weighting appears to conform closely to applicant's actual accounting procedures in recording net plant additions and is considered more reasonable than applicant's.

The negative difference of \$9,795 for the depreciation reserve follows from the staff's treatment of depreciation expense, which is considered proper and reasonable.

The non-operative plant item of \$2,100 represents land upon which are located some non-productive wells which are being amortized by charges to operating expense. Therefore, the staff has made a deduction from rate base for the portion of the plant consisting of land which has become non-operative, which treatment is considered to be realistic and reasonable.

Amounts included in rate base for working capital are determined by judgment. A review of the several factors involved in such determination leads to the conclusion that the staff's amount is the more justifiable and reasonable.

In view of all of the evidence, for the year 1959, a weighted average amount of \$466,450 will be adopted as a reasonable rate base upon which to test the reasonableness of the revenues estimated as obtainable at the rates proposed by applicant and at the rates to be authorized in this proceeding.

7. Trend of Earnings

To demonstrate its claim that there will occur substantial decline in the rate of return between 1959 and 1960, applicant estimated the rate of return at its proposed rates, for the year 1959, on a year-end rate base as shown in the right-hand column of the foregoing tabulation. Such rate base gives full weight to the 1959 plant additions needed to maintain and improve service but which are largely non-revenue-producing facilities and are non-recurring. The difference between the rates of return estimated by applicant on the two rate bases represents a claimed decline of 0.79 per cent, due solely to the full year effect of such additions.

It should be pointed out that applicant's estimate of the rate of return on the year-end rate base for 1959 is subject to discrepancies similar to those discussed hereinabove as being applicable to the estimated rate of return on the weighted average rate base for the same year. Moreover, applicant has used the same revenues for the year-end results as those estimated as obtainable from the average number of customers, rather than from the increased number of customers who would be receiving service at the end of the year.

However, it is not possible for the increased rates to be authorized herein to be in effect during the whole of 1959, the year on which applicant's operations have been analyzed. In the light of all of the evidence, it is apparent that applicant will experience a decline in the rate of return and that the level of rates based on the year 1959 should take that factor into account. It further appears that a decline of about 0.93 per cent may be expected to occur within the next twelve months.

Rate of Return

Summarizing, after adjusting for the amounts found reasonable in the foregoing discussion, the following tabulation sets forth

the adopted results of applicant's operations for the year 1959 as estimated at present rates, at applicant's proposed rates, and at the rates hereinafter authorized.

RESULTS OF OPERATION AS ADOPTED

<u>Item</u>	<u>1959 Estimated</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
<u>Operating Revenues</u>			
General Metered	\$ 95,635	\$155,120	\$134,000
Public Fire Protection	3,200	3,200	3,200
Total	<u>98,835</u>	<u>158,320</u>	<u>137,200</u>
<u>Operating Expenses</u>			
Operation & Maintenance	38,070	38,070	38,070
Administrative & General	12,550	12,550	12,550
General Taxes	13,040	13,760	13,505
Depreciation	18,130	18,130	18,130
Amortization of Property Losses	2,090	2,090	2,090
Income Taxes	1,800	29,580	18,185
Total	<u>85,680</u>	<u>114,180</u>	<u>102,530</u>
Net Operating Revenue	<u>13,155</u>	<u>44,140</u>	<u>34,670</u>
Depreciated Rate Base	\$466,450	\$466,450	\$466,450
Rate of Return	2.82%	9.46%	7.43%

The evidence demonstrates, as the foregoing tabulations indicate, that revenues obtained from existing water rates are inadequate to meet applicant's reasonable needs and that applicant is entitled to increased revenues. However, the rates which applicant has proposed would yield revenues considerably greater than a reasonable return would require.

Advances for Construction Transferred to Capital Surplus

Included in the rate bases in the foregoing tabulations is an amount of \$13,308.74 which had been transferred from advances for construction to capital surplus in May, 1955, by the predecessor owner of the applicant corporation, Thad C. Binkley.

Binkley testified that these advances had been used by him as an individual proprietor to install plant facilities prior to the time that the Commission granted the applicant corporation a certificate of public convenience and necessity by its Decision No. 51133 dated February 23, 1955, in Applications No. 35468 and No. 35469. The service area for which the facilities had been provided was subsequently annexed by the City of Palo Alto, and an exchange was negotiated with the city, at generally equivalent values, for facilities in an area where Binkley assumed service. Under the terms of the contract with the developers who advanced said amount, Binkley testified that liability for refunds of the advances had ceased prior to issuance of the certificate of public convenience and necessity to applicant corporation, and before applicant came into existence as a corporation. Transfer of the amount to capital surplus in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission was inadvertently delayed until May, 1955.

The record shows that the amount concerned was spent for an installation which was exchanged for other facilities which are now being used to serve customers other than those who made the advance. It also shows that the price paid for the applicant's stock purchased by Citizens Utilities Company, a Delaware corporation, included the said amount of \$13,308.74 as part of the stock's book value.

It appears that the transfer to capital surplus, as previously made, should remain undisturbed as a reasonable disposition of the said advances for construction in the unusual circumstances existing herein.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and the rate base as revised herein, reasonably represent the results of

applicant's operations for the year 1959 and they will be and hereby are adopted for the purposes of this proceeding.

After considering all the evidence, we find that applicant is entitled to a portion of the relief sought and that an order should be issued revising and increasing the rates for water service to the extent set forth in Appendix A following the order herein. As indicated by a foregoing tabulation, the rates hereinafter authorized are estimated to produce for the year 1959 total operating revenues of about \$137,200, had such rates been made effective at the beginning of the year, which revenues are \$38,365, or approximately 39 per cent, more than those estimated to be obtainable from rates presently in effect. After due allowance for all reasonable operating expenses, depreciation and taxes amounting to \$102,530, the resulting net revenue of \$34,670 represents a rate of return of 7.43 per cent on the depreciated rate base of \$466,450. In view of an indicated decline of 0.93 per cent on the rate of return during the next twelve months, the Commission concludes that the water rates authorized herein will produce earnings sufficient to afford applicant an opportunity to earn a rate of return of 6.5 per cent for the immediate future, which rate of return we find to be fair and reasonable.

We find, therefore, that the increases in rates and charges authorized herein are justified and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

O R D E R

North Los Altos Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered to its customers in portions of the cities of Los Altos, Mountain View and Palo Alto, and adjacent unincorporated territory in Santa Clara 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 September 15, 1959.

2. Within sixty days after the effective date of this order, applicant shall file four copies of a comprehensive map drawn to an indicated scale not smaller than 500 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 11th day of August, 1959.

Ernest R. Long
President
E. J. [illegible]
E. [illegible]
Theodore [illegible]
Commissioners

Commissioner Matthew J. Dooley being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 3

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Los Altos, Mountain View and Palo Alto, and adjacent unincorporated territory, Santa Clara County.

RATES

Per Meter
Per Month

Quantity Rates:

First 600 cu.ft. or less	\$ 2.75
Next 2,400 cu.ft., per 100 cu.ft.....	.34
Over 3,000 cu.ft., per 100 cu.ft.....	.23

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.75
For 3/4-inch meter	4.00
For 1-inch meter	6.00
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	30.00

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

APPENDIX A
Page 2 of 3

Schedule No. 5

PUBLIC 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

Portions of the cities of Los Altos, Mountain View and Palo Alto, and adjacent unincorporated territory, Santa Clara County.

RATES

Type of Hydrant	Size of Connection	Per Hydrant Per Month		
		Diameter of Main Supplying Hydrant		
		Smaller	4-Inch and	6-Inch
		than	Less than	and
		4-Inch	6-Inch	Larger
Wharfhead	2½-inch	\$1.50	\$1.75	\$2.00
Wharfhead	3-inch	1.75	2.00	2.25
Standard	4-inch	-	2.50	3.00
Standard	6-inch	-	3.00	3.50

SPECIAL CONDITIONS

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

(Continued)

APPENDIX A
Page 3 of 3

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS—Contd.

4. 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.

5. Fire hydrants will be attached to the utility's distribution mains for public fire protection only upon receipt of proper resolution passed by the local fire protection agency. Said resolution must designate the type of hydrant, size of connection and specific location at which each hydrant is to be installed.