

ORIGINAL

Decision No. 59705

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 its Water
System Service the Niles-Decoto Area in
Alameda County.)
Application No. 40665

Graham, James & Rolph by Boris H. Lakusta, for
applicant.
Harold J. McCarthy and John Gillanders, for the
Commission staff.

OPINION ON REHEARING OF DECISION NO. 58851

Petition for Rehearing

Citizens Utilities Company of California¹ on August 31, 1959, filed its petition for rehearing of Decision No. 58851, dated August 4, 1959, in the above-entitled proceeding, claiming that the rate base adopted by the Commission in said decision for the test year 1959 erroneously excluded an item of 1959 construction amounting to \$16,000, thereby producing a deficiency in the rates authorized Citizens. Applicant did not take issue with any other conclusion of the Commission. An order granting rehearing was issued on September 29, 1959; however, the increases in rates, estimated to produce \$16,850 of additional annual revenues, authorized by said Decision No. 58851 were duly filed and became effective on September 1, 1959.

Public Hearing

After due notice, rehearing of Decision No. 58851 was held before Examiner William W. Dunlop on November 17, 1959 in San Francisco. Citizens presented one exhibit and testimony through one

¹ Hereinafter sometimes called Citizens.

witness in support of its claim. The Commission's staff cross-examined applicant's witness. At the conclusion of the rehearing, the matter was taken under submission. Thereafter, on January 11, 1960, Citizens filed its petition to set aside submission of rehearing in order to present an estimated 1959 earnings statement which was attached to said petition. The petition to set aside submission will be denied without prejudice, however, to the filing by applicant, if it so desires, of a new application. The rehearing matter now is ready for decision.

Results Adopted in Decision No. 58851

The results of operation adopted in Decision No. 58851 for the Niles-Decoto water system of Citizens for the test year 1959 as estimated at the rates authorized in said decision are set forth in the following tabulation:

<u>Item</u>	<u>1959 Estimated at Rates Authorized by Decision No. 58851</u>
Operating Revenues	\$111,250
Operating Expenses, Depreciation and Taxes	84,000
Net Operating Revenues	27,250
Weighted Average Depreciated Rate Base	381,100
Rate of Return	7.15%

In Decision No. 58851 the Commission allowed for a decline of .65 percent in the rate of return during the next twelve months, finding a rate of return of 6.5 percent to be fair and reasonable for applicant's Niles-Decoto system and concluding that the water rates authorized in said decision would produce sufficient earnings to afford applicant an opportunity to earn a 6.5 percent rate of return for the immediate future.

Applicant's Position

Citizens claimed in its petition for rehearing that the estimated year 1959 weighted average depreciated rate base of \$381,100 adopted by the Commission in its Decision No. 58851

erroneously excluded an item of \$16,000 from its 1959 construction budget as set forth in Exhibit 3, Table 8-D Revised, Item 7. At the rehearing Citizens revised its request and asked that its 1959 rate base be increased by \$19,018, that its annual net revenues be increased by \$1,235 and that its annual gross revenues be increased by \$2,580 over and above the increases in rates authorized by said Decision No. 58851. Citizens developed these claimed amounts from its Exhibit No. 16, as follows:

<u>Item</u>	<u>Amount</u>
1959 Construction, Excluding Work Covered By Line Extension Advances:	
Actual Expenditures to 9/30/59	\$76,998
Estimated Additional, Last Quarter 1959	<u>3,010</u>
Total Claimed	80,008
Allowed in Decision No. 58851	<u>60,990</u>
Claimed Over Decision Amount	19,018
Additional Net Revenue	
Claimed ($\$19,018 \times 6.5\%$ Rate of Return)	1,235
Additional Gross Revenue	
Claimed ($\$1,235 \times 2.17$ Net to Gross Factor)	2,580

Citizens represents that a major portion of the \$19,018 amount by which its claimed 1959 construction expenditures exceed the amount allowed in Decision No. 58851 are nonrevenue producing backup and replacement facilities. In effect, Citizens asks that the \$19,018 amount be included in rate base for the entire year 1959 and that a rate of return of 6.5 percent be allowed on such amount for the full year.

While applicant's counsel at the rehearing stated that in connection with the claimed increase of \$19,018 in rate base there are certain increases in depreciation expense and ad valorem taxes that also should be reflected, applicant did not present any specific amounts for such items.

Commission Staff Position

The Commission staff did not challenge the claim of Citizens that its actual expenditures for 1959 construction up to September 30, 1959 and as estimated by applicant for the remainder of 1959 exceeded the amounts allowed in developing the test year 1959 weighted average depreciated rate base of \$381,100 adopted in Decision No. 58851. The staff did, however, take exception to applicant's claim that the entire \$19,018 amount should be added to the 1959 weighted average depreciated rate base without application of an appropriate weighting factor.

Findings and Conclusions

The evidence is clear that the company is entitled to consideration of this \$19,018 in its rate base. However, the evidence is equally clear that a substantial portion of the facilities represented by the \$19,018 amount, which applicant claims should be included without weighting in the estimated year 1959 weighted average depreciated rate base, was not included in applicant's plant accounts until the month of September 1959. Further, under applicant's accounting procedures, interest during construction was taken on this item for a portion of the year 1959.

It is not proper to include in rate base construction work in progress on which interest during construction is being accrued. To do so would penalize the ratepayer. In its Decision No. 58851, the Commission specifically rejected the use of a year-end rate base and adopted a weighted average depreciated rate base. This conclusion of the Commission was not challenged by Citizens in its petition for rehearing.

It is revealed in Exhibit No. 16 that expenditures for subdivision extensions on which line extension advances for construction were collected by Citizens in its Niles-Decoto area exceeded by \$12,806 the original estimate made by applicant. The Commission in its Decision No. 58851 used Citizens' original estimate for this

item. Line extension advances for construction are an offset to rate base.

We note in passing that Citizens in its showing on rehearing did not reflect any additional revenues for additional customers that may have been served by the additional expenditure of \$12,806 for subdivision extensions.

Based upon a careful review of the evidence we find that the estimated year 1959 weighted average depreciated rate base of \$381,100 adopted in Decision No. 58851 should be increased by \$6,400, or to \$387,500, which rate base we find to be fair and reasonable for the Niles-Decoto area for the test year 1959.

The cost of plant constructed or installed by Citizens, with some exceptions, includes a 10 percent overhead charge as shown in Exhibit No. 9. Overhead credits to operating expenses as developed by the staff in Exhibit No. 10, amounting to \$5,140 for the estimated year 1959, were adopted by the Commission in its Decision No. 58851 based upon Commission adopted net additions to plant of \$73,390 for Niles-Decoto area in 1959. Thus, the overhead credits to operating expenses amount to 7 percent of adopted net additions to plant. Citizens in its showing on rehearing failed to reflect the additional overhead credits to operating expenses resulting from its claimed net additions to plant of \$109,614 estimated for 1959 as shown on Exhibit No. 16. Based on net additions to plant of \$109,614 for Niles-Decoto area for 1959, which amount we have used in developing the weighted average depreciated rate base of \$387,500 for 1959 mentioned above, we find the reasonable overhead credits to operating expenses to be \$7,670, or \$2,530 more than reflected in Decision No. 58851.

Giving effect to the above-mentioned additional overhead credits to operating expenses, allowing for appropriate increases in ad valorem taxes and in depreciation expense to take into account

the increased plant, and reflecting the effect of such changes in expenses on income taxes, we find that Citizens in its Niles-Decoto area will realize net revenues sufficient to produce a rate of return of no less than 7.15 percent on a weighted average depreciated rate base of \$387,500 for the estimated year 1959 at the rates authorized in Decision No. 58851. We further find that the rates authorized by Decision No. 58851 will produce earnings sufficient to afford applicant an opportunity to earn a rate of return of 6.5 percent for the immediate future, which rate of return we find to be fair and reasonable. Accordingly, we find that the rates authorized by Decision No. 58851 and now in effect should remain in effect and that applicant's request for additional increases in rates should be denied.

ORDER ON REHEARING OF DECISION NO. 58851

Rehearing having been held on the above-entitled matter, and the Commission having been fully informed thereon, the matter having been submitted and now being ready for decision and based upon the evidence and the findings and conclusions expressed in the foregoing opinion,

IT IS ORDERED that applicant's petition to set aside submission is denied.

IT IS FURTHER ORDERED that the rates authorized by Decision No. 58851 shall remain in effect and that applicant's

request for additional increases in rates sought by its petition for rehearing is denied.

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

Dated at San Francisco, California, this 23rd day of FEBRUARY, 1960.

[Signature] President
[Signature]
[Signature]
[Signature]
Theodore H. Jones Commissioners

Commissioner Everett C. McKee, being necessarily absent, did not participate in the disposition of this proceeding.