

ORIGINAL

Decision No. 66366

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PARKWAY WATER CO., a corporation, for authority to increase its rates and charges for its water system serving the communities of Parkway Estates, Glen Elder and adjacent territory in Sacramento County.

Application No. 45176
(Filed February 13, 1963)

Bacigalupi, Elkus & Salinger, by William C. Fleckles,
for applicant.

Lawrence Q. Garcia, L. L. Thormod and R. W. Beardslee,
for the Commission staff.

O P I N I O N

Proceeding

This application was heard before Commissioner Mitchell and Examiner Coffey at North Sacramento on July 17, 1963. It was submitted upon the filing of the hearing transcript on August 9, 1963. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented five exhibits and testimony by one witness in support of its request for authority to increase its rates and charges for water service in Parkway Estates, Glen Elder and adjacent territory in Sacramento County. By Decision No. 65401, dated May 14, 1963, in Application No. 45360, this Commission authorized the transfer of the Glen Elder water system to the City of Sacramento. Four witnesses from the Commission staff presented the results of their independent studies and investigations of applicant's operations. Portions of the record in the application of Citizens Utilities Company of California (Application No. 45164) for increased rates for water service in its Boulder Creek District

relating to rate of return and to expenses to be allocated through mutual service accounts were incorporated in this record by stipulation of the parties. One public witness protested the requested increase in rates.

System and Service Area

Applicant is a wholly owned subsidiary of Citizens Utilities Company (Citizens Delaware) headquartered at Stamford, Connecticut, and is, together with nine other California water service companies, an affiliate of Citizens Utilities Company of California (Citizens California), with headquarters at Redding, California. Citizens Delaware operates or controls utility companies with gas, electric, telephone and water operations in nearly 400 communities in the United States. Citizens Delaware engages actively in the administrative direction of applicant and performs certain administrative, financial, engineering and purchasing services for applicant as well as for its own operating districts and other subsidiary corporations. An office is maintained by Citizens California in Redding, California, where administration and engineering for the telephone department of Citizens California and general accounting, including billing, for the applicant and the California affiliated companies are performed. Administration of applicant, of Citizens California water department operations in five districts and of other California affiliated companies is performed from an office maintained in North Sacramento.

As of December 31, 1962, applicant served approximately 68 metered, 2230 flat rate and 8 private fire protection customers and 205 public fire hydrants. During 1962 applicant served an average of 418 customers in Glen Elder.

Applicant's Request and Rate Proposal

Revenues received by applicant are obtained from the sale of water to business customers at meter rates and to residential

customers at flat rates. The following table summarizes applicant's present and proposed rates, no increases being requested for private and public fire protection services:

PRESENT AND PROPOSED RATES

Annual General Metered Service

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 800 cu.ft. or less	\$ 2.00	\$ 3.00
Next 3,200 cu.ft., per 100 cu.ft.15	.23
Over 4,000 cu.ft., per 100 cu.ft.075	.11

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.00	\$ 3.00
For 3/4-inch meter	3.00	4.50
For 1-inch meter	4.50	6.75
For 1 1/2-inch meter	7.00	10.50
For 2-inch meter	14.00	21.00
For 3-inch meter	25.00	37.50
For 4-inch meter	40.00	60.00
For 6-inch meter	70.00	105.00

Residential Flat Rate Service

Rates:

For each residential unit without swimming pool, including a lot having an area of:	<u>Per Service Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
8,000 sq.ft. or less	\$ 2.40	\$ 3.35
8,001 to 11,000 sq.ft.	2.75	3.70
11,001 to 13,000 sq.ft.	3.00	3.95
13,001 to 15,000 sq.ft.	3.25	4.20
15,001 to 20,000 sq.ft.	3.75	4.70
20,001 to 25,000 sq.ft.	4.00	4.95
25,001 to 30,000 sq.ft.	4.50	5.45
30,001 to 35,000 sq.ft.	5.00	5.95
35,001 to 40,000 sq.ft.	5.50	6.45
40,001 to 45,000 sq.ft.	6.00	6.95
Over 45,000 sq.ft., for each additional 10,000 sq.ft. or fraction thereof75	1.20

Under applicant's proposed rates the bills for metered service to businesses would increase 50% and the bills for flat rate service to residences would increase 95 cents per month. The average

monthly bill for metered service is \$9.19 under present rates and would be \$13.74 under proposed rates. The average monthly bill for flat rate service is \$2.66 and would be \$3.65 under proposed rates.

Issues

The following are the issues in this proceeding:

1. Reasonableness of the estimates of operating revenues, expenses, including taxes and depreciation, and rate base.
2. Reasonableness of the rate of return.
3. Staff operating and safety recommendations.

Results of Operation

The following tabulation compares the estimates made by the staff and by applicant for the results of operation in the test year 1963 under both present and proposed rates:

SUMMARY OF EARNINGS Year 1963 Estimated

<u>Item</u>	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant's</u>	<u>CPUC Staff</u>	<u>Applicant's</u>	<u>CPUC</u>
	<u>Showing</u>		<u>Showing</u>	<u>Staff</u>
	<u>Exh. No. 2</u>	<u>Exh. No. 6</u>	<u>Exh. No. 2</u>	<u>Exh. No. 6</u>
Operating Revenues	\$ 75,174	\$ 74,250	\$ 97,439	\$101,140
Operating Expenses:				
Opr. & Maint. Exp.	22,400	21,620	22,400	21,750
Adm. & Gen. & Misc. Exp.	10,500	8,530	10,500	8,530
Taxes Other Than on Inc.	16,032	7,890	16,032	7,890
Depreciation	16,672	14,160	16,672	14,160
Income Taxes	2,583	100	11,239	1,130
Total Opr. Exp.	\$ 68,187	\$ 52,300	\$ 76,843	\$ 53,460
Net Revenue	\$ 6,987	\$ 21,950	\$ 20,596	\$ 47,680
Depreciated Rate Base	\$435,550	\$389,400	\$435,550	\$389,400
Rate of Return	1.6%	5.64%	4.7%	12.24%

The staff's estimate of revenue at present rates is \$924 less than applicant's. Applicant did not explain the basis of its revenue estimate. To estimate total revenue the staff witness, after adjusting for the sale of Glen Elder, determined by class of service

the linear projection of recorded revenue for the years 1960, 1961, and 1962. We find reasonable the staff estimate of revenue at present rates as reflecting customer growth and increments in average customer usage.

Applicant's estimate of operation and maintenance expenses at present rates exceeded that of the staff by \$780. The field investigation of the staff indicated that four of the seven pumps operate at over-all poor efficiency, that pressure tanks are operated in an excessively water logged condition, and that the pressure tanks receive too much air charge. The staff estimated that the correction of these operating conditions would effect a \$400 savings in pumping costs. Inasmuch as properties of applicant's affiliate in North Sacramento were recently lost by condemnation proceedings, it is to be anticipated that applicant in the immediate future will have higher unit costs than in the past. We find reasonable applicant's estimates of operation and maintenance expenses after a \$400 reduction to reflect potential pumping cost savings.

Applicant's estimate of administration and general and miscellaneous expenses exceeds that of the staff by \$1,970, \$1,600 of which relates to expenses incurred at Stamford and Redding which are allocated through mutual service accounts. Applicant has adopted the staff recommendations relative to the reduction of construction overheads but has not adopted a recommendation to eliminate direct charges from the Stamford Mutual Service Account.

We find that applicant's estimate of \$752,000 plus \$28,000 for pension expense is a reasonable estimate of the amount of salaries, wages and other expenses which in 1963 will be incurred at Stamford and should be distributed in part to California operations.

Applicant has had two opportunities in this proceeding to demonstrate the reasonableness of its position on direct charge, once in response to staff data requests and again during the hearings in these proceedings. Applicant has failed to produce any convincing evidence that (1) the Commission should not follow the general principle guiding the staff, to wit, that Stamford expenses should be charged to California operations only to the extent that such expenses are in the interest of California consumers, and (2) the proper method of effecting such charges to California operations is to allocate by the four factor method only those items which remain after the elimination of amounts which can be identified and assigned directly, which result from activities of no benefit to California consumers and which relate to construction overheads.

In order that the Commission may be informed of staff recommendation of the amount of Stamford expenses which should be charged to California operations, it is necessary that the staff examine the Stamford books and records and/or the applicant make adequate responses to staff requests for data. It is not in the public interest that California consumers be required to bear the expenses of an audit in Stamford each year that applicant or an affiliate requests a rate increase. Applicant and its affiliates are placed on notice that the expense of such out-of-state audits may be disallowed in the future as a rate-making expense, or that the production of appropriate books and records in California may be required, or that the Commission will disallow expenses which are not proved by applicant to be reasonable. We find reasonable, based on the ratios developed from the staff audit, that direct charges amounting to \$178,500 should be deducted from expense incurred in Stamford. We find reasonable \$5,800 as applicant's portion of the expenses which are allocated through the Mutual Service Account. This

allowance is \$500 greater than that of the staff, includes the effect of elimination of directs from Stamford expense, and increases directs to California. We find that a reasonable allowance for administrative and general and miscellaneous expense is \$9,030.

The difference, \$8,142, between the estimates of taxes other than income results mainly from the various estimates of ad valorem taxes. Based on the last-known tax rates and the actual assessed valuations applicable to the year 1963 introduced during the hearing on this application, we find that the staff estimate is reasonable after increasing the ad valorem taxes from \$7,300 to \$9,800.

The difference in depreciation expense between the estimates of the staff and applicant mainly result from the staff use of longer remaining lives. We find reasonable the staff estimate of \$14,160 for depreciation expense.

The staff method of computing income taxes differs from that of applicant's in that:

1. The staff's income tax depreciation estimates are based on depreciation rates and methods utilized by applicant in its tax returns; applicant's income tax depreciation expenses in its showing are the same as used for book purposes.

2. The staff has reduced federal income taxes by the amount of the investment tax credit; applicant has not made this deduction.

3. The staff has computed interest expense by applying Citizens Delaware's capitalization ratio and composite interest rate; applicant has not included an interest expense deduction.

We find the staff method of computing income taxes reasonable. We have reviewed these adjustments in other proceedings involving affiliates of applicant.

The difference between the rate bases estimated by the staff and applicant mainly result from the staff adjustment for an amount intended as a contribution but not recorded as such, from the staff deduction of movies which the applicant has failed to collect from subdividers, and from the lesser staff allowance for working cash. We find the staff rate base reasonable.

Service and Rates

A staff witness testified that of 26 customer trouble reports from January 1962 to May 1963, all have been satisfactorily resolved or service deficiencies corrected. The witness further recommended, to which applicant objected, the following operating improvements, which we find reasonable:

(1) Applicant should compute its well production and maintain monthly records of the quantities so produced at each well.

(2) Applicant should install a safety valve at each pressure tank and indicate the maximum allowable working pressure on each tank.

(3) Applicant should operate and maintain the pressure tanks pursuant to at least the minimum requirements of the Unfired Pressure Vessels Safety Orders of the Division of Industrial Safety. We are gravely concerned regarding the unsafe practice of applicant relying on the rupture of its distribution system, or the even weaker hot water heaters of its customers, as a pressure tank protective measure in the event of failure of its pump pressure switches.

The staff witness further recommended that rates should be authorized which would effect an approximately equal unit cost of water to both meter rate and flat rate customers.

Adopted Results

The staff recommended that the rate of return for applicant be within the range of 6.4 to 6.6 percent.

We find that the estimates as set forth below of operating revenues under present rates and the rates and charges herein authorized, expenses, including taxes and depreciation, rate base and rate of return for the year 1963, reasonably represent the results of applicant's operations for the purposes of this proceeding, and said rate base and rate of return we find to be reasonable:

ADOPTED SUMMARY OF EARNINGS

	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 74,250	\$ 81,300
Operating Expenses:		
Operating & Maintenance Expense	22,000	22,000
Admin. & Genl. & Miscl. Expense	9,030	9,030
Taxes Other Than on Income	10,390	10,390
Depreciation	14,160	14,160
Income Taxes	100	100
Total Operating Expenses	\$ 55,680	\$ 55,680
Net Revenue	\$ 18,570	\$ 25,620
Depreciated Rate Base	\$389,400	\$389,400
Rate of Return	4.77%	6.58%

Findings

Upon consideration of the evidence the Commission finds that:

1. Applicant is earning less than a reasonable rate of return and increased rates should be authorized.

2. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

3. The proposed increases in metered service rates are unreasonable and have not been justified.

We conclude that applicant's request for authority to increase its rates should be granted for residential flat rate service to the extent provided in the following order.

Under this authorization the monthly bill of each residential customer will increase 32 cents.

O R D E R

IT IS ORDERED that:

1. Parkway Water Company is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedule of rates attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after December 16, 1963.

2. Within sixty days after the effective date of this order, Parkway Water Company shall:

- (a) Compute its well production and thereafter maintain monthly records of the quantities so produced at each well.
- (b) Install a safety valve on each pressure tank and indicate the maximum allowable working pressure on each tank.
- (c) Operate and maintain the pressure tanks pursuant to the requirements of the Unfired Pressure Vessels Safety Orders of the Division of Industrial Safety.
- (d) Inform the Commission in writing when the compliance with items (a), (b) and (c) has been accomplished.

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

Dated at San Francisco, California, this 26th day of NOVEMBER, 1963.

William W. Brown
President
George E. Brown
Frederick B. Holbeuff
Commissioners

APPENDIX A
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Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service. (T)

TERRITORY

The area known as Parkway Estates, located at the intersection of Florin Road and Franklin Boulevard and vicinity, southerly of Sacramento, Sacramento County. (T)
(T)

RATES

Per Service Connection:

For each residential unit without swimming pool, including a lot having an area of:

8,000 sq.ft. or less	\$ 2.72	(T)
8,001 to 11,000 sq.ft.	3.07	
11,001 to 13,000 sq.ft.	3.32	
13,001 to 15,000 sq.ft.	3.57	
15,001 to 20,000 sq.ft.	4.07	
20,001 to 25,000 sq.ft.	4.32	
25,001 to 30,000 sq.ft.	4.82	
30,001 to 35,000 sq.ft.	5.32	
35,001 to 40,000 sq.ft.	5.82	
40,001 to 45,000 sq.ft.	6.32	
Over 45,000 sq.ft., for each additional 10,000 sq.ft. or fraction thereof.	.85	

SPECIAL CONDITIONS

1. Charges for flat rate service are payable in advance.
2. All service not covered by the above classifications will be furnished only on a metered basis.

(Continued)

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

3. Meters may be installed at option of utility or customer for above classifications in which event service will thereafter be rendered on the basis of Schedule No. 1, General Metered Service, and must be continued for not less than 12 months before it may be again changed to flat rate service.