

ORIGINALDecision No. 66729

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 Boulder
 Creek, Brookdale, Ben Lomond and
 Felton and adjacent territory in
 Santa Cruz County.

Application No. 45164
 (Filed February 5, 1963)

Bacigalupi, Elkus & Salinger, by William G. Fleckles,
 for applicant.
Alice Earl Wilder, for San Lorenzo Valley Chamber of
 Commerce; Edward F. Mullany, in propria persona;
J. Elwood Andresen, in propria persona; Anne S.
Newlands, for United Property Owner's Association
 of San Lorenzo Valley; and John E. Lynch, in
 propria persona and for Messrs. Wilson, Haasfeld,
 Jones and Morton; interested parties.
Cyril M. Saroyan, Elmer Sjostrom, L. L. Thormod
 and Robert W. Beardslee, for the Commission Staff.

O P I N I O NProceeding

This application was heard before Commissioner Mitchell and Examiner Coffey at Boulder Creek on May 22 and 23 and July 9, 10 and 11, 1963. It was submitted upon the receipt of late-filed exhibits, transcript and statements of counsel on September 24, 1963. Copies of the application were served in accordance with the Commission's procedural rules.

Applicant presented 13 exhibits and testimony by three witnesses in support of its request to increase its rates and charges for water service in its Boulder Creek District in Santa Cruz County. Four witnesses from the Commission staff presented the results of

their independent study and investigation of applicant's operations. Public attendance at the initial hearing was approximately 150 persons. Twenty-two public witnesses testified relative to their dissatisfaction with the quality of water, the service of the utility, the special conditions of the present rate schedules, or in opposition to 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 affiliated with ten other California water service companies, 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 applicant in Redding, California, where administration and engineering for the telephone department of applicant and general accounting, including billing, for the applicant and the California affiliated companies are performed. Administration of applicant's water department operations in five districts and of other California affiliated companies is performed from an office maintained in North Sacramento.

In September 1961, Citizens Delaware purchased the outstanding capital stock of the Felton Water Company and two parcels of land in Santa Cruz County. As authorized by this Commission in Decision No. 63108, dated January 16, 1962, the Felton Water Company was merged into Citizens of California and has been operated as a part of applicant's Boulder Creek District since 1962.

During the year 1962 applicant served an average of 2,704 metered customers in the Boulder Creek area and an average of 744 customers in the Felton area.

Applicant's Request and Rate Proposal

Applicant's present tariffs provide for annual and seasonal metered service and flat rates in the Felton area and for annual and seasonal metered service rates in the remaining area of the district. Annual minimum charges apply to service during the 12-month period commencing January 1. Seasonal minimum charges in the Felton area apply to service during any six consecutive months beginning and ending in the same calendar year and in the remaining district area apply likewise to any ten consecutive months. Charges for water used in excess of the quantities allowed for the minimum charge may be billed monthly or bimonthly at the option of the company on a noncumulative monthly consumption basis.

Applicant proposes to discontinue the currently authorized tariffs for the Felton area. The following table summarizes the present and proposed minimum charge rates, no increase being requested for public fire protection service:

PRESENT AND PROPOSED RATES

Item	Rates		
	Present	Proposed	
	Felton Area	All Other Areas	Entire District

Annual General Metered Service

Quantity Rates:	<u>Per Meter Per Month</u>		
First 500 cu.ft. or less	\$ 2.60	\$ 3.50	\$ 4.30
Next 1,500 cu.ft., per 100 cu.ft.	.36	.55	.68
Next 2,000 cu.ft., per 100 cu.ft.	.25	.45	.56
Next 3,000 cu.ft., per 100 cu.ft.	.25	.40	.49
Next 3,000 cu.ft., per 100 cu.ft.	.25	.35	.43
Next 2,000 cu.ft., per 100 cu.ft.	.23	.35	.43
Over 12,000 cu.ft., per 100 cu.ft.	.23	.25	.31

Minimum Charge:	<u>Per Meter Per Year</u>		
For 5/8 x 3/4-inch meter	\$ 31.20	\$ 42.00	\$ 52.00
For 3/4-inch meter	42.00	60.00	74.10
For 1-inch meter	78.00	96.00	118.60
For 1 1/2-inch meter	120.00	168.00	207.50
For 2-inch meter	168.00	252.00	311.20
For 3-inch meter	288.00	--	540.00
For 4-inch meter	456.00	--	820.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

Seasonal Metered Service

Quantity Rates:	<u>Per Meter Per Month</u>		
First 500 cu.ft. or less	\$ --	\$ --	\$ --
Next 1,500 cu.ft., per 100 cu.ft.	.36	.55	.68
Next 2,000 cu.ft., per 100 cu.ft.	.25	.45	.56
Next 3,000 cu.ft., per 100 cu.ft.	.25	.40	.49
Next 3,000 cu.ft., per 100 cu.ft.	.25	.35	.43
Next 2,000 cu.ft., per 100 cu.ft.	.23	.35	.43
Over 12,000 cu.ft., per 100 cu.ft.	.23	.25	.31

(Continued)

PRESENT AND PROPOSED RATES

Item	Rates		
	Present	Proposed	
	Felton Area	All Other Areas	Entire District

Seasonal Metered Service
(Continued)

Minimum Charge:	<u>Per Meter Per Season</u>		
For 5/8 x 3/4-inch meter	\$ 22.50	\$ 35.00	\$ 43.00
For 3/4-inch meter	33.00	50.00	62.00
For 1-inch meter	69.00	80.00	100.00
For 1½-inch meter	111.00	140.00	173.00
For 2-inch meter	159.00	210.00	260.00
For 3-inch meter	279.00	--	450.00
For 4-inch meter	447.00	--	685.00

Quantity Allowed for Minimum Charge:	<u>Per Meter Per Month</u> (cubic feet)		
For 5/8 x 3/4-inch meter	500	500	500
For 3/4-inch meter	750	800	800
For 1-inch meter	1,600	1,300	1,300
For 1½-inch meter	2,700	2,500	2,500
For 2-inch meter	4,000	4,000	4,000
For 3-inch meter	8,200	--	8,000
For 4-inch meter	14,400	--	14,000

During the hearings, applicant proposed that the above annual minimum charges be eliminated through the substitution of annual service charges and proposed the following general metered service rates to be applicable to all metered service:

General Metered Service

Quantity Rates:	<u>Per Meter Per Month</u>
First 5,000 cu.ft., per 100 cu.ft.	\$.50
Over 5,000 cu.ft., per 100 cu.ft.	.35

Service Charge:	<u>Per Meter Per Year</u>
For 5/8 x 3/4-inch meter	\$ 36.00
For 3/4-inch meter	54.00
For 1-inch meter	84.00
For 1½-inch meter	138.00
For 2-inch meter	225.00
For 3-inch meter	432.00
For 4-inch meter	624.00

The annual service charge does not entitle the customer to a quantity of water but, rather, represents the "readiness-to-serve" costs independent of the charge per water consumed.

Under the applicant's proposed minimum charge rates the median monthly bill for approximately 300 cubic feet of water would increase in the Felton area for annual service from \$2.60 to \$4.30, an increase of 65 percent. In other areas the increase for both annual and seasonal services would be from \$3.50 to \$4.30, an increase of 23 percent. The monthly bill under the proposed service charge rates would be \$4.50 for 300 cubic feet of water and would be \$3.00 for no consumption.

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. Reasonableness of the pricing structure of applicant's tariffs.

Results of Operation

The following estimates of the results of operation made by the applicant and the staff for both present and proposed rates are from Exhibit 11.

✓
✓
✓

SUMMARY OF EARNINGS
(Year 1963 Estimated)

Item	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$ 189,309	\$193,500	\$ 247,265	\$258,200
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	46,500	43,700	46,500	44,400
Admin. & Gen. & Misc. Exp.	29,800	21,900	29,800	21,900
Taxes Other Than on Inc.	35,382	31,300	35,382	31,300
Depr. & Amortization	31,365	25,900	31,365	25,900
Income Taxes	11,737	14,600	43,404	49,600
Total Oper. Exp.	154,784	137,400	186,451	173,100
Net Revenue	34,525	56,100	60,814	85,100
Depreciated Rate Base	1,151,042	795,400	1,151,042	795,400
Rate of Return	3.00%	7.05%	5.28%	10.70%

The staff's estimate of operating revenues under present rates exceeds that of the applicant by \$4,191. Both estimates in effect are based on the assumption that the year 1962 was reasonably representative of average use conditions. After reviewing recorded data and noting that applicant's estimate does not include an amount for miscellaneous revenues, we find that for the year 1963 a reasonable estimate for regulatory purposes of operating revenues is \$192,000.

Applicant's estimate of operating and maintenance expenses at present rates exceeds that of the staff by \$2,800. This difference results from:

- (a) Applicant estimating a larger percentage of payroll would be charged to expense in 1963 than was charged in 1962 in contrast with the staff use of the same percentage in both years.
- (b) Applicant's inclusion of an allowance for uncollectibles at proposed rates.
- (c) Higher estimates of transportation depreciation by applicant.

We find reasonable the staff estimate of \$43,700 for operating and maintenance expenses at present rates in the year 1963.

Applicant's estimate of administration and general and miscellaneous expenses exceeds that of the staff by \$7,900. Of this amount, \$1,200 relates to the staff elimination of the portion of pension expense associated with Stamford personnel as a direct charge and the inclusion of it in the Stamford Mutual Service Account, \$1,400 relates to legal and regulatory commission expenses and \$5,100 relates to allocated mutual service expenses.

In Decision No. 66366 in Application No. 45176 of the Parkway Water Company, an affiliate of applicant, we reviewed the record of the present application relative to the foregoing issues of pension expense and allocated mutual service expenses. In accord with said decision, 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, and that it is reasonable to deduct \$178,500 of direct charges from the foregoing expenses incurred in Stamford. We find that \$13,700 is a reasonable estimate of the portion of the expenses which should be allocated through the mutual service accounts. This allowance is \$1,200 greater than that of the staff, includes the effect of elimination of direct charges from Stamford expenses and increases direct charges to California.

Since this proceeding has been more complex and protracted than assumed in the staff estimate of regulatory commission expense, we find \$4,800 is a reasonable estimate of the legal and regulatory commission expenses to be incurred by applicant in 1963.

We find that a reasonable allowance for administrative and general expense is \$24,500.

Applicant employed more recent information in arriving at its estimate of ad valorem taxes than was available to the staff when it prepared its report. We find that applicant's estimate of ad valorem taxes, adjusted for rate base items hereinafter discussed, is reasonable and that \$34,700 is a reasonable estimate of applicant's 1963 taxes other than on income.

The staff estimate of depreciation and amortization expense is \$5,500 less than that of the applicant. Applicant made no showing in support of its use of remaining lives shorter than those found reasonable by this Commission in Decision No. 57177, dated August 14, 1958, Application No. 39674. We find reasonable the staff estimate of depreciation and amortization expense of \$25,900.

We find the staff method of computing income taxes reasonable, having reviewed in a number of recent proceedings involving applicant and affiliates of applicant the methods employed by the applicant and by the staff.

The rate base proposed by applicant exceeds that of the staff by \$355,600.

The staff investigation disclosed that in December, 1962, several advance construction contracts having a face value of \$59,217 were purchased and recorded on a present worth discount basis, that these contracts were bought through an arrangement which was made between Citizens Delaware and The Gralnick Foundation, located in Port Chester, New York, and that the actual discount realized under this arrangement was 69 percent. Applicant recorded on its books a

present worth discount of about 40 percent for these transactions. In a similar situation which occurred in connection with applicant's Niles District, Decision No. 58851, dated August 4, 1959, stated in part the following: "...applicant is placed on notice that this type of associated company transaction constituted improper use of an affiliate to the ultimate detriment of the ratepayer." We find reasonable the inclusion by the staff in its rate base of an adjustment for the foregoing improper transaction in the amount of \$4,219.

The staff recommended the exclusion of 16 parcels of land from the rate base as not used and useful in utility operations and the exclusion of excess land owned at two sites. Applicant did not question the exclusion of the 16 parcels, but argued relative to the excess land that the amounts were actually spent, that the best deal possible was negotiated for a three-acre well site and that land was needed to protect a water source in close proximity to a road. With knowledge of the staff recommendation, the applicant did not demonstrate on this record the reasonableness of its position.

Citizens Delaware purchased the entire stock of the Felton Water Company and two parcels of land (18.866 acres), not on the books of the utility, from their owner in one transaction for the unsegregated amount of \$225,920. Of this amount, \$135,000, which is all of the excess amount over the net book value of the stock (\$90,920), is alleged by applicant to represent the cost of the 18.866 acres of land. Applicant testified that Citizens Delaware had been attempting to buy the Felton Water Company since 1951 to secure additional supplies of water, but that the owner wanted an

unreasonably high price. In 1961 the owner indicated willingness to sell and insisted that the said two parcels of land be purchased at the same time in order to protect two of the water sources. These parcels are contiguous to and mostly surrounded by lands on the books of the utility. The staff and applicant concur that said parcels are needed in the utility operations.

Applicant alleges that said parcels were dedicated to public service for the first time after Citizens Delaware donated them to applicant. The staff contends that the land in question had been dedicated to public service prior to the sale. We find that the former owner by her insistence that the parcels be kept integral with the utility system to protect the water sources of the utility did in fact consider said parcels as used and useful in public utility water service, that former owners of the utility had in fact used said parcels for many years to protect water sources of the utility, and that said parcels had in fact been dedicated to public utility water service prior to said sale. The mere failure to record said property on the books of the utility by the owner of both is not convincing proof that said property was not dedicated to public utility service when statements and actions clearly demonstrate that such had in fact been made.

The only valuation in this record of the 18.866 acres in question approximating the time of dedication was made by the staff in the amount of \$1,054, which we find reasonable for the purposes of this proceeding.

In the summer of 1961, applicant extended a transmission main and associated equipment to obtain water from a nonaffiliated

nonutility company. This extension was made at a time of water shortage. The staff recommended that the cost of the main and associated equipment (\$60,501) be excluded from the rate base and amortized at the average service life of mains since additional storage and sources of supply had been added to the system, rendering these facilities unnecessary. Part of the main is presently being used to connect a well to the system. Applicant alleged that the line is useful in the event of breakdown of equipment or in the event of a very severe dry spell. We find the staff recommended procedure to be reasonable for said transmission main and equipment after decreasing the amount of the adjustment by \$10,300 to reflect the portion presently used and useful. The amount of supply from the two utility wells is limited by the system transmission mains. The use of the main in question to obtain water from the most expensive source available to the utility would be contingent upon the simultaneous failure of the utility equipment and the event of a very severe dry spell.

In 1959 applicant constructed a cut and fill, gunited reservoir of 6½ million gallons capacity at a cost of approximately \$95,000, \$79,550 of which was paid to the construction company. In September 1959, a heavy rainfall caused the cut and filled banks to erode and two slides to occur. Investigation disclosed that the fill had been placed over top soil, leaves, tree limbs, a brush pile and considerable amounts of organic material. Voids were found beneath the gunite liner of the reservoir which was revealed by test borings to be very thin. Leakage and subsurface seepage was apparent.

After hearing, the Commission limited the maximum depth to which water could be stored in the reservoir and ordered applicant to insure that soil eroded from either cut or fill banks would not enter the neighboring creek. (Decision No. 60897 in Case No. 6627.)

Applicant thereafter engaged an independent engineering firm and reconstructed the reservoir at a cost of \$182,000, the total book cost being \$277,777. In Decision No. 61867, dated April 19, 1961 (Case No. 6627), by which the reservoir operating restrictions were removed, this Commission said:

"The action of the Commission and of its staff in this matter has been directed towards protection of the public from possible destruction of or damage to life and property. The safety of the structure and its safe operation and use have been of paramount concern. We note that respondent's employees who designed the original structure are not registered as professional engineers in the State of California. We also note that the cost of the reservoir as now reconstructed is more than three and one-third times the cost anticipated for a completed structure. The ultimate responsibility for the errors and omissions which created the dangers and structural deficiencies and which has finally produced an excessively costly reservoir lies with respondent's management. We shall not in this proceeding attempt to determine what proportion of the costs of reconstruction, if any, may become a part of respondent's rate base."

Based on the damage claims by applicant in a civil action against the original builder of the reservoir, the staff recommended that \$164,500 be considered the excess costs of building this reservoir. Prior to the conclusion of the hearings on the present application said civil action resulted in a verdict for the defendant.

Applicant alleged it made doubly sure that the reservoir was put in a really polished condition. Applicant installed a remote control valving system in the reservoir (\$500), added a Panelcraft

liner to the reservoir (\$27,000), landscaped the reservoir slopes, enlarged and terraced the uphill slope, improved the road to the reservoir (\$3,325), fenced the reservoir (\$3,000) and installed a system of drains to divert water away from any slope where erosion could start. Witness for applicant testified that the cost of moving a large volume of earth from the toe of the dam to eliminate organic matter therein was between \$20,000 and \$25,000.

We note from applicant's soil investigation report in Case No. 6627, Exhibit 1, the following:

"The cut slopes are in good condition. They are in firm material; erosion has not been unduly severe and its effect is controllable.

"The original gunite liner is quite porous as evidenced by the leakage...."

From the foregoing it appears applicant's witness did not fully divulge all costs that reasonably could be associated with reconstructing the reservoir. The Panelcraft liner would not have been required if the gunite had not been thin and porous and the enlargement and terracing of the uphill slope were required as a source of fill to replace that removed from the toe of the dam as well as to decrease the slope of the fill.

We find that the sum of \$113,277, estimated by the staff to be the reasonable cost of the reservoir, should be included in the rate base for the purpose of this proceeding. The extraordinary expense involved in the restoration of the reservoir, in light of the circumstances, will not be allowed in the valuation for rate making. An allowance will be made in operating expenses to amortize said extraordinary expense.

The staff proposed no allowance for working cash inasmuch as 48 percent of applicant's revenues are collected within the first three months of the year. Applicant attempted to justify its request for an allowance of \$9,320 in an analysis of working capital requirements in relation to annual billings collected. The analysis gave no weight to billings other than annual or to the advance collection of income taxes. We find reasonable that no allowance be included in the rate base for working cash.

We find reasonable for the purpose of this proceeding a depreciated rate base of \$805,700.

Service and Rates

Applicant by Exhibit 14 reported on its investigation of service complaints received at the hearing on this application. A staff witness testified that the utility is providing good service and that service complaints and inquiries are handled promptly.

This record contains expressions of customer dissatisfaction with the rates for seasonal as compared to year-round customers. Applicant presented a cost of service study which sets forth the amounts which equitably should be charged each type of customer and which presents the relative costs to serve the Felton area and the remaining area of the district.

We find reasonable the proposal by both the staff and applicant to eliminate the annual minimum charge and to substitute therefor an annual service charge. Both types of customers will pay a service charge, or readiness-to-serve charge, with no water being allowed for this charge. An additional charge will be made for any water used. The service charge type of rate will eliminate

subsidizing of the seasonal customer by the year-round customer and payment by the seasonal customer for a water allowance which is not used. We find reasonable that uniform rates be applied throughout applicant's Boulder Creek District.

Adopted Results

We find that the estimates set forth below of operating revenues under present rates, expenses, including taxes and depreciation, and the 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 reasonable.

ADOPTED SUMMARY OF EARNINGS

	<u>Present Rates</u>
Operating Revenues	\$192,000
<u>Operating Expenses</u>	
Operating & Maintenance Expenses	43,700
Admin. & Gen. & Misc. Expenses	23,900
Taxes Other Than on Income	34,700
Depreciation & Amortization	28,900
Income Taxes	10,800
Total Operating Expenses	<u>142,000</u>
Net Revenue	50,000
Depreciated Rate Base	805,100
Rate of Return	6.2%

Findings

Upon consideration of the evidence the Commission finds that:

1. Applicant has not justified a need for an increase of revenues, but has justified increases in certain rates as provided in the following order.

2. Applicant's rates should be increased and decreased as provided in the order following.

3. The present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable. ✓

The Commission concludes:

1. This application for increased rates should be denied, except as provided in the order following. ✓

2. Applicant should be authorized to file the schedule of rates attached to this order.

3. The rates and charges authorized herein are justified and are reasonable.

The rates and charges herein authorized will not increase applicant's gross revenue. The typical residential customer's average monthly bill for 300 cubic feet of water will in the Felton area increase from \$2.60 to \$3.30, an increase of 27 percent, while in other areas the monthly bill will decrease from \$3.50 to \$3.30, a decrease of 6 percent.

O R D E R

IT IS ORDERED that:

1. Application No. 45164 is denied.
2. Applicant 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 March 1, 1964. Such filing shall

cancel all present tariff schedules with the exception of Schedules Nos. BX-5 and BCF-5, Public Fire Hydrant Service.

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

Dated at San Francisco, California, this 28th day of January, 1964.

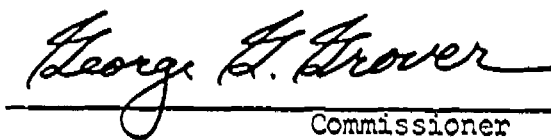
William A. ...
President

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Commissioners

I concur in the order. However, I would reach that result by allowing in rate base the full amount of the line constructed in 1961 and by deleting the allowance, on an amortized basis, for the extraordinary expense involved in reconstruction of Big Concrete Reservoir.



Commissioner

I concur in the opinion, findings and order except insofar as the opinion states that an allowance will be made in operating expenses to amortize the extra ordinary expense incurred on account of the Big Concrete Reservoir (Sheet 14). In my opinion, the record shows that such expense was incurred imprudently. I would so find and disallow any such amortization expense.

January 28, 1969.

Fredrick B. Holboff,
Commissioner.

APPENDIX A
Page 1 of 2

Schedule No. BC-1

Boulder Creek Tariff Area

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The communities of Boulder Creek, Brookdale, Ben Lomond and Felton and vicinity, Santa Cruz County.

RATES

	<u>Per Meter Per Month</u>
Monthly Quantity Rates:	
First 5,000 cu. ft., per 100 cu. ft.	\$0.35
Over 5,000 cu. ft., per 100 cu. ft.	0.28
	<u>Per Meter Per Year</u>
Annual Service Charge:	
For 5/8 x 3/4-inch meter	\$27.00
For 3/4-inch meter	42.00
For 1-inch meter	66.00
For 1 1/2-inch meter	105.00
For 2-inch meter	174.00
For 3-inch meter	324.00
For 4-inch meter	474.00

The Annual Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

(Continued)

Schedule No. BC-1
Boulder Creek Tariff Area
ANNUAL GENERAL METERED SERVICE

(Continued)

Service Establishment Charge:

For each establishment or re-establishment of
water service \$ 4.00

SPECIAL CONDITIONS

1. The opening bill for general metered service shall be the established annual service charge. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. If a permanent resident of the areas has been a customer of the utility for at least 12 months, he may elect, at the beginning of the billing year, to pay a prorated service charge in advance on a bimonthly basis equal to one-sixth of the annual service charge.

2. The service establishment charge provided for herein is in addition to the charges calculated in accordance with this schedule and will be made each time an account is opened or reopened for a customer at the time water service is to be established, restored after discontinuance at customer's request or transferred to a different customer which requires a meter reading.