

Decision No. 66738

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ISLETON WATER COMPANY, a corporation,)
for authority to increase its rates)
and charges for its Water System)
serving the community of Isleton and)
adjacent territory in Sacramento)
County.)

Application No. 45171
Filed February 11, 1963;
amended June 3, 1963.

Bacigalupi, Elkus & Salinger, by William G. Fleckles, for applicant
Lawrence Q. Garcia, L. L. Thormod, R. W. Beardslee, for the Commission staff.

O P I N I O N

This application was heard before Examiner Coffey at Isleton on July 15 and September 17, 1963. It was submitted upon the receipt of a late-filed exhibit and the filing of the hearing transcript on October 16, 1963. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented six exhibits and testimony by three witnesses in support of its request for authority to increase its rates and charges for water service in the City of Isleton and adjacent territory in Sacramento County. 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. Public attendance at the initial hearing was approximately 75 persons. One public witness protested the amount of the requested increase in rates.

System and Service Area

In May 1961, applicant became 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 337 metered service customers and 32 public fire hydrants in an area immediately adjacent to the Sacramento River. The water system was in existence prior to 1911. Water is plentiful, being obtained from low lift wells.

Applicant's Request and Rate Proposal

Revenues received by applicant are presently obtained from the sale of water to both business and residential customers at meter rates. Upon becoming aware that many of its meters were aged and inoperative, applicant amended its original request for increased meter rates to request in addition the authorization of residential flat rates. The following table summarizes applicant's present and proposed rates, no increases being requested for private and public fire protection, sewer flushing, and construction services:

GENERAL METERED SERVICE

Quantity Rates:	<u>Per Meter</u>	<u>Per Month</u>
	<u>Present</u>	<u>Proposed</u>
	<u>Rate</u>	<u>Rate</u>
First 5,000 gallons or less	\$ 2.25	\$ 4.45
Next 15,000 gallons, per 1,000 gal.	.25	.49
Next 30,000 gallons, per 1,000 gal.	.20	.40
Over 50,000 gallons, per 1,000 gal.	.15	.30
 Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 2.25	\$ 4.45
For 3/4-inch meter	3.00	5.95
For 1-inch meter	4.50	8.90
For 1½-inch meter	7.00	13.85
For 2-inch meter	10.00	19.75
For 3-inch meter	16.50	32.61
For 4-inch meter	24.00	47.45

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

RESIDENTIAL FLAT RATE SERVICE

Rate:	<u>Per Service</u>	<u>Per Month</u>
	<u>Proposed</u>	<u>Rate</u>
For each service		\$5.65

Under applicant's proposed metered service rates the bill for 14,000 gallons, the approximate average monthly water use for service, would increase from \$4.50 to \$8.86, or 97 percent. Under applicant's proposed residential flat rate the bill would be \$5.65,

an amount which is approximately 25 percent higher than the foregoing average use bill.

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.

Results of Operations

The following tabulation compares the estimates made by the staff and by the applicant of the results of operations in the test year 1963 under present and proposed metered service rates and flat rates.

SUMMARY OF EARNINGS (Year 1963, Estimated)

<u>Item</u>	<u>Meter Rates</u>		<u>Meter & Flat Rates</u>	
	<u>Present</u>		<u>Proposed</u>	
	<u>Appli- cant</u>	<u>CPUC Staff Exh. 6</u>	<u>Appli- cant Exh. 4</u>	<u>CPUC Staff Exh. 8</u>
Operating Revenues	\$17,403	\$19,160	\$32,500	\$32,590
Operating Expenses				
Oper. & Maint. Expenses	16,367	9,540	13,806	9,010
Admin. & Gen. & Misc. Exp.	3,238	3,340	4,687	3,340
Taxes other than Income	1,715	1,110	1,298	1,110
Depreciation	2,413	2,930	3,153	2,760
Income Taxes	100	340	3,235	5,200
Total Operating Expenses	23,833	17,260	26,179	21,420
Net Revenue	(6,430)	1,900	6,321	11,170
Depreciated Rate Base	79,311	70,420	81,728	61,200
Rate of Return	(8.1)%	2.70%	7.7%	18.25%

(Red Figure)

The estimates of revenues at proposed meter and flat rates are substantially the same. Since operating revenues recorded in 1962 amounted to \$17,707, it appears that applicant's estimate of revenues in 1963 under present rates, \$17,403, does not take into

account that many of the meters were nonoperative. We find reasonable the staff estimate of revenue at present rates in the year 1963, \$19,160.

Applicant's estimate of operation and maintenance expenses at proposed rates exceeded that of the staff by \$4,796. The accounting records maintained by this utility were not adequate prior to its affiliation with Citizens Delaware in mid-1961, consisting of books of original entry and a general ledger without invoices and other supporting detail. Lacking reliable accounting data, the staff estimated operation and maintenance expenses in general by applying unit costs. Applicant's estimates were developed by estimating major categories of salaries and wages, pumping power, material, services, communication, transportation or miscellaneous expenses. The weighted average transmission and distribution expense per customer in 1962 of applicant's affiliates in California was \$2.82, the range being from approximately \$1 to \$6.50 per customer, excluding applicant and the Inverness Water Company. For the purpose of this proceeding, we find that \$6.50 per customer is a reasonable annual allowance for transmission and distribution expense. The staff witness testified that much of the current maintenance expense is properly classed as deferred maintenance.

Applicant and its affiliated interests are reminded that it is a long-standing policy of this Commission that, under the circumstance of the accumulation of deferred maintenance at the time of purchase of utility properties, such deferred maintenance costs should not be directly assessed to operating expenses but should be considered for rate making as a part of the purchase cost of the properties as this deferred maintenance existed at the time the properties were purchased. The cost of deferred maintenance is

a further payment for the property acquired and therefore is not properly chargeable to operating expenses in establishing rates, (24 CRC 33, 37).

In Decision No. 66366 (November 26, 1963; A.45176) this Commission found reasonable the operation and maintenance expenses estimated for 1963 by Parkway Water Company, an affiliate of applicant. In this estimate the customer accounting and collecting expense less uncollectibles amounted to \$1.79 per customer per year. Inasmuch as the rate structure hereinafter authorized is comparable with that of the Parkway Water Company, we find that \$2 per customer is a reasonable annual allowance for customer accounting and collecting expense less uncollectibles.

We find reasonable the staff estimates of operation and maintenance expenses, modified by the foregoing findings on unit costs and the adjustment of uncollectibles to reflect the revenues found reasonable, \$6,330.

Applicant's estimate of administrative and general and miscellaneous expenses exceeds that of the staff by \$1,347. Of this amount, \$830 results from the staff elimination of a portion of the pension expense associated with Stamford personnel as a direct charge and the inclusion of it in the Stamford Mutual Service Account, \$852 results from allocated mutual service expenses, and the foregoing are partially offset by a staff estimate of regulatory Commission expense \$320 higher than that of applicant.

In Decision No. 66366, Parkway Water Company, 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 \$2,000 is a reasonable estimate of the portion of the expenses which should be allocated through the mutual service accounts. This allowance is \$200 greater than that of the staff, includes the effect of elimination of direct charges from Stamford expenses and increases direct charges to California.

We find reasonable the staff estimate of administrative and general expense, modified by the foregoing findings, \$3,540.

The difference, \$188, between the estimates of taxes other than income results mainly from the various estimates of payroll taxes. We find reasonable the staff estimate of \$1,110 for taxes other than on income, being based on procedures and rates for estimating payroll taxes which this Commission has considered to give reasonable results.

The staff and applicant difference in depreciation expense estimates mainly results from the staff use of longer remaining lives, from staff adjustments to plant accounts, and the amortization by applicant of the reconstruction of the filter plant over a five-year period. We find reasonable the staff estimate of \$2,760 for depreciation expense.

We find the staff method of computing income taxes reasonable. We have reviewed the differences between the staff's and applicant's methods of computing income taxes in other proceedings involving affiliates of applicant (Decision No. 66366).

The difference in the rate bases estimated by staff and applicant mainly results from the staff elimination from intangible plant of \$28,790, which properly should have been treated for

rate-fixing purposes as a plant acquisition adjustment, from the lesser staff allowance for working cash and the inclusion by applicant of an amount for "rate case expense." We find the staff rate base reasonable.

Service and Rates

A staff witness testified that when Citizens Delaware acquired this system in 1961 it was in poor operating condition, but the applicant has since made efforts towards rehabilitating it, particularly in the field of filtration and billing.

No service complaints were made at the hearing on this application.

Inasmuch as applicant's operations are well suited to the application of flat rates and in order to effect metering and billing economies, we will authorize flat rates for residential service and meter rates for general service.

In line with a continuing policy to achieve as much uniformity as possible in the form of rate schedules as set forth in General Order No. 96-A and for convenience of comparison, the schedules of rates for metered service will be stated in units of 100 cubic feet instead of in units of 1,000 gallons as at present. While applicant will not be required to convert the dials of its existing meters from readings in gallons to cubic feet, it is recommended that applicant make such conversions whenever replacements and repairs to its existing meters make such conversion feasible and that all new meters purchased should register deliveries in cubic feet. Applicant will be required to post in its office, for the convenience of all customers, a table illustrating the conversion of meter readings in gallons to billing quantities in cubic feet, together with the appropriate charges therefor.

Adopted Results

The staff recommended that the rate of return for applicant be within the range of 6.4 to 6.6 percent. The applicant testified that a fair rate of return would be between 6.5 and 6.9 percent.

We find that the estimates, as set forth below, of operating revenues under present rates, 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 reasonable.

ADOPTED SUMMARY OF EARNINGS

<u>Item</u>	<u>Meter and Flat Rates Present Rate Level</u>
Operating Revenues	\$19,160
Operating Expenses	
Operation & Maintenance Expense	6,330
Admin. & General & Misc. Expense	3,540
Taxes other than Income	1,110
Depreciation	2,760
Income Taxes	1,500
Total Operating Expenses	<u>15,240</u>
Net Revenue	3,920
Depreciated Rate Base	61,200
Rate of Return	6.4%

Findings

Upon consideration of the evidence the Commission finds that:

1. Applicant has not justified a need for its rates to be increased.
2. 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.
2. Applicant should be authorized to file the schedules of rates for water service attached to this order.

The rates and charges herein authorized will not increase applicant's gross revenue.

O R D E R

IT IS ORDERED that:

1. Application No. 45171 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, on 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.
3. On or before March 1, 1964, and continuously thereafter, until such time as applicant no longer has in service meters calibrated in gallons, applicant shall post in its office, open to public inspection, a table illustrating the conversion of meter readings for each 1,000 gallons, from zero to 50,000 gallons, to billing quantities in cubic feet, together with the appropriate charges therefor at the currently effective rate schedule or schedules. Within ten days after the initial posting, applicant shall file with the Commission two copies of such conversion table.

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

Dated at San Francisco, California, this 27th day of FEBRUARY, 1964.

William W. Bennett
President
Grant W. Hoag
George T. Dwyer
Fredrick B. Halbluff

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

The City of Isleton and vicinity, Sacramento County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 700 cu.ft. or less	\$ 2.25	(T)
Next 2,000 cu.ft., per 100 cu.ft.25	
Next 4,000 cu.ft., per 100 cu.ft.20	
Over 6,700 cu.ft., per 100 cu.ft.15	(T)
Minimum Charge:		
For 5/8 x 3/4-inch meter	2.25	
For 3/4-inch meter	3.00	
For 1-inch meter	4.50	
For 1 1/2-inch meter	7.00	
For 2-inch meter	10.00	
For 3-inch meter	16.50	
For 4-inch meter	24.00	

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The City of Isleton and vicinity, Sacramento County.

RATES

	<u>Per Service Connection Per Month</u>
For a single-family residential unit, including premises	\$ 3.40

SPECIAL CONDITIONS

1. The above flat rate applies to service connections not larger than one inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.