

ORIGINALDecision No. 68841

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 CONEJO VALLEY WATER COMPANY, a corpo-
 ration, for authority to increase
 its rates and charges for water
 service to areas served in the
 vicinity of Thousand Oaks, Conejo
 Valley, Ventura County.

Application No. 45442
 (Filed May 17, 1963; Amended
 December 16, 1963)

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg,
 and William G. Fleckles, for applicant.
Vaughn, Brandlin, Robinson & Roemer, by James H.
Lyons, for Committee for Fair Water Service,
 Users of Service, protestant.
Philip C. Drescher, for Ventura County Fire Protection
 District; Raymond C. Sandler, for Exhibit Homes,
 Inc. and Richard Doremus, interested parties.
Cyril M. Saroyan, Robert W. Beardslee, and L. L.
Thornod, for the Commission staff.

O P I N I O NProceeding

This application was heard before Commissioner Mitchell and Examiner Coffey in Thousand Oaks and Los Angeles, California. Oral argument was held after thirteen days of hearing and the matter was submitted on October 1, 1964. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented 34 exhibits and testimony by six witnesses in support of its request to increase its rates and charges for water service in the vicinity of Thousand Oaks, Conejo Valley, Ventura County. Four witnesses from the Commission staff presented nine exhibits and testimony on the results of their independent study and investigation of applicant's operations.

Public attendance at the initial hearing was between 300 and 400 persons. Six public witnesses presented six exhibits and testified concerning their dissatisfaction with the quality of the water and the service of the utility, the cost of water to consumers, and alleged mismanagement of applicant. Applicant in Exhibit 7 reported on its investigation of the 64 written customer complaints received at the hearings.

System and Service Area

Conejo Valley Water Company (Conejo, applicant) began operations as a public utility water system on January 15, 1959. Conejo was financed and owned by subdividers who were at the same time the initial developers of land in the immediate service area of the utility. On or about December 23, 1960, the stockholders of Conejo purchased all of the outstanding stock of State Water Company (State), a contiguous public utility also organized by subdividers who were the initial developers in its certificated area. On July 29, 1961, Citizens Utilities Company of Delaware (Citizens Delaware) entered into an agreement to purchase from the stockholders of Conejo and State all of the outstanding stock, open account obligations and notes payable to said stockholders for \$1,000,000.

On August 31, 1961, the recorded plant account balances were \$1,831,574 and the stockholders' investment was a total of \$1,763,357 for both systems. Between August 31, 1961 and June 30, 1963, applicant made gross plant additions amounting to \$588,826 and plant retirements and other adjustments amounting to \$31,082.

Pursuant to authority of the Commission, State was merged into Conejo in December 1961 and Conejo issued 1,758

additional shares of its capital stock to Citizens Delaware in exchange for the outstanding stock of State.

During this proceeding Conejo was merged into Citizens Utilities Company of California (Citizens California) to become an operating district of Citizens California. Citizens California, together with nine other California water service companies, is a wholly owned subsidiary of Citizens Delaware, as was Conejo prior to the merger.

As of December 31, 1963, Conejo had 2,595 active services and one private fire connection and 323 public fire hydrants.

Prior to February 27, 1964, Conejo obtained all of its water from wells. The quality and productivity of the wells varied from well to well. The ground waters are highly mineralized, extremely hard, dirty, present taste and odor problems and are difficult to extract with dependability.

Despite endeavors to supply water acceptable for domestic service by treatment, the water was not of high quality. In addition to obtaining water from wells within its service area, Conejo advanced \$118,504 to Village Water Company to drill 5 wells within the Village area to supply applicant, subject to certain qualifications, up to 500,000 gallons of water a day at the rate of \$38.50 per acre-foot.

On February 27, 1964, applicant began to purchase Metropolitan Water District (MWD) water from the Calleguas Municipal Water District and to blend this water with its local well water. By Decision No. 67178, dated May 5, 1964, in Application No. 43124, this Commission ordered that no local water

was to be blended with water obtained from the Calleguas Municipal Water District unless authorized by an order in this application.

Applicant's Request and Rate Proposal

Conejo's filed tariff schedules provide for general metered, private fire protection and public fire hydrant services in that area formerly served by State Water Company. The same types of service, with the exception of private fire protection, are furnished in other areas served by Conejo at substantially lower rates. The following table summarizes applicant's present and proposed metered rates:

PRESENT AND PROPOSED RATES

<u>Item</u>	<u>Present</u>		<u>Proposed</u>
	<u>State Water Co. Areas</u>	<u>All Other Conejo Valley Water Co. Areas</u>	<u>All Areas</u>
<u>General Metered Service</u>			
<u>Rates per Meter per Month</u>			
Quantity Rates:			
First 500 cu.ft. or less		\$ 3.75	\$ 7.15
Next 1,500 cu.ft., per 100 cu.ft.		.25	.50
Next 3,000 cu.ft., per 100 cu.ft.		.20	.40
Over 5,000 cu.ft., per 100 cu.ft.		.15	.30
First 1,200 cu.ft. or less	\$ 5.00		
Next 1,000 cu.ft., per 100 cu.ft.	.25		
Next 7,800 cu.ft., per 100 cu.ft.	.20		
Over 10,000 cu.ft., per 100 cu.ft.	.10		
Minimum Charge:			
For 5/8 x 3/4-inch meter	\$ 5.00	\$ 3.75	\$ 7.15
For 3/4-inch meter	5.50	4.00	7.65
For 1-inch meter	7.00	6.00	11.65
For 1 1/2-inch meter	-	8.00	15.85
For 1 3/4-inch meter	10.00	10.00	19.50
For 2-inch meter	15.00	15.00	28.50
For 3-inch meter	25.00	20.00	38.00
For 4-inch meter	40.00	30.00	57.00
For 6-inch meter	50.00	-	72.00

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

PRESENT AND PROPOSED RATES
(Contd.)

<u>Item</u>	<u>Present</u>		<u>Proposed</u>
	<u>State Water Co. Areas</u>	<u>All Other Conejo Valley Water Co. Areas</u>	<u>All Areas</u>
<u>Private Fire Protection Service</u>			
	<u>Rates per Month</u>		
For each 4-inch dia. serv. conn.	\$ 6.00	No	\$11.00
For each 6-inch dia. serv. conn.	9.00	Schedule	21.00
For each 8-inch dia. serv. conn.	12.00	Filed	28.00
For each 10-inch dia. serv. conn.	25.00		58.00
For each 12-inch dia. serv. conn.	35.00		82.00
<u>Public Fire Hydrant Service</u>			
	<u>Rates per Hydrant per Month</u>		
From a main less than 4-inch diameter, wharf type	\$.50		\$ 2.50
From a 4-inch main, risers 3-inch diameter or less, wharf type	1.00		2.50
From a 6-inch main, risers 3-inch diameter or less, wharf type	1.00		2.50
3" (or less) x 2½" (or less) single outlet from 4-inch main		\$ 1.50	
3" (or less) x 2½" (or less) single outlet from 6-inch main		1.50	
3" (or less) x 2½" (or less) single outlet from 8-inch main		1.50	
4" x 2½" single outlet from 4-inch main	1.25	1.50	2.50
4" x 2½" single outlet from 6-inch main	1.50	2.00	2.50
4" x 2½" single outlet from 8-inch main	2.00	2.50	2.50
4" x 2½" double outlet from 4-inch main		2.50	
4" x 2½" double outlet from 6-inch main	2.50	3.00	5.00
4" x 2½" double outlet from 8-inch main	3.00	4.00	5.00
6" x 2½" double outlet from 6-inch main		5.00	
6" x 2½" double outlet from 8-inch main		5.00	

Under Conejo's proposed rates the bill for typical usage of 2,100 cubic feet per month would increase from \$7.25 in State Water Company areas and from \$7.70 in all other of Conejo's areas to \$15.05, increases of 108 percent and 95 percent, respectively.

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 water service proposed to be rendered by applicant.

Results of Operations

The following estimates of the results of operations were made by the applicant and the staff for both present and proposed rates:

SUMMARY OF EARNINGS

Year 1964 Estimated

<u>Item</u>	<u>Present Rates</u>			<u>Proposed Rates</u>		
	<u>Applicant's Showing</u> (Exh. 16)	<u>CPUC Staff Showing</u> <u>Purchased Water Basis</u> (Exh. 25-A)	<u>Blended Water Basis</u> (Exh. 46)	<u>Applicant's Showing</u> (Exh. 16)	<u>CPUC Staff Showing</u> <u>Purchased Water Basis</u> (Exh. 25-A)	<u>Blended Water Basis</u> (Exh. 46)
Operating Revenues	\$245,811	\$281,800	\$281,800	\$457,681	\$534,600	\$534,600
<u>Operating Expenses</u>						
Oper. & Maint. Exp.	135,850 ^{a/}	139,600	147,600	135,850 ^{a/}	139,600	147,600
Admin. & Gen. & Misc. Exp.	34,700	24,400	24,400	34,700	24,400	24,400
Taxes Other Than Income	44,068	27,100	29,800	46,168	28,800	31,500
Depreciation Exp.	68,300	39,800	93,900	68,300	39,800	93,900
Income Taxes	100	100	100	73,615	112,400	102,300
Total Operating Exp.	283,018	231,000	295,800	358,633	345,000	399,700
Net Revenue	(37,207)	50,800	(14,000)	99,048	189,600	134,900
Depreciated Rate Base	2,345,029	1,370,800	1,485,800	2,345,029	1,370,800	1,485,800
Rate of Return	(1.59)%	3.71%	(0.94)%	4.22%	13.83%	9.08%

^{a/} Includes amortization of contract with Village Water Co. in the amount of \$11,850.

(Red Figure)

The foregoing estimate by applicant is based on the assumption that water served the customers will be a blend of applicant's well water, about 20 percent, and water purchased from MWD (applicant's blended basis). The staff estimate set forth in Exhibit 25-A is based on its recommendation and assumption that all water served, except in emergencies, ^{1/} would be purchased from MWD (purchased basis). The staff estimates set forth in Exhibit 46 were in response to the examiner's request for data which would permit the Commission to consider the reasonableness of operations other than those proposed by the applicant or the staff (staff's blended basis). ^{1/}

Inasmuch as the basic issue which accounts for many of the differences in the foregoing results of operations is the reasonableness of applicant's proposed blended basis and the staff's recommended purchased basis of water service, we shall consider this issue first.

The protestant's position is that the only way applicant's customers will receive a decent supply of water is by 100 percent use of MWD water. In support of this position witnesses produced at the hearing the following:

(a) One-half gallon of water drawn from residence tap on November 7, 1963, from which would settle about one-half inch of gray-black solids.

(b) One gallon of water drawn from a residence tap after going through a water softener on the morning of the first day

^{1/} The staff recommended that, of the 34 wells shown by applicant, Exhibit 22, to be in the plant accounts and rate base, only Wells Nos. 6, 7 and 12 be used for emergency standby on the purchased basis and that Wells Nos. 6, 9, 12, 21, 33 and 45 be used on the staff's blended basis.

of hearing, completely clouded with rust-colored material, and containing sediment on the bottom of the bottle.

(c) A quart jar filled with faucet parts collected over a period of a month by a local hardware store from its customers whose homes were serviced by applicant, estimated to be one-tenth of the total replacements, some parts being replaced as often as once a month from the same faucet assembly.

(d) Various discolored utensils and water sample containing sediment used in preparing a baby's formula.

(e) A three-foot length of pipe, in service one and one-half years, nearly totally plugged with deposits, "eaten through" to contain a hole, and characterized as being not an unusual situation on applicant's system.

Protestant witnesses summarized consumers' complaints that "the water was not fit for human consumption"; people have complained about getting fungus infection from the water, skin irritations and other illnesses; utensils were streaked and spotted to make a dishwasher useless; the water is ruining china and silverware; it is impossible to retain whiteness in clothes; automobile paint is ruined by the water; the water corrodes fixtures and plumbing, causing pipes to burst; water heaters are being replaced at an abnormal rate, one consumer is on his third water heater in four years and on his third water softener tank in four years; 80 percent of the people have water softeners; some people spend between \$6 and \$13 per month for bottled drinking and cooking water; some people are seriously considering moving and others have moved because of the water quality; water was better in some areas

and worse in others than the samples presented; the most successful method of cleaning a witness's bathroom bowl is to use a razor blade; and that the water is black and oily and has an offensive odor.

By Exhibit 7, applicant reported on its investigation of the 64 individual complaints at hearings on the application during the period February 26 to March 2, 1964. Of these, 53 complained of the quality of water. Exhibit 7 recites that, with few exceptions in the Village Water Company area, wells throughout Ventura County have historically produced water with high total dissolved solids and sulphate content; that consequently the California Department of Public Health issued applicant and many adjacent water utilities temporary health permits that allowed limits of 1,500 parts per million (ppm) total dissolved solids (tds) and 600 ppm sulphates; and that said "permits were issued on the basis that although the character of the water was not highly desirable, it was the best obtainable, and was not injurious to human beings". (Emphasis added.)

Exhibit 7 tabulated the analysis results of 55 water samples taken at four points over 14 months from January 1963 through February 1964. This tabulation is summarized as follows:

DISTRIBUTION OF SAMPLES BY MINERAL CONTENT

<u>Number of Samples</u>				<u>TDS (total solids residue)</u>			
<u>Sulphates - ppm</u>				<u>mg/liter</u>			
<u>250 or less</u>	<u>251 to 500</u>	<u>501 to 600</u>	<u>601 or more</u>	<u>500 or less</u>	<u>501 to 1000</u>	<u>1001 to 1500</u>	<u>1501 or more</u>
1	35	16	3	0	4	46	3

These results of sample tests are to be compared with upper limits of total solids and sulphates set forth in Exhibit 21

by applicant as the upper limits for drinking water adopted as an interim policy by the State Department of Public Health on September 4, 1959:

UPPER LIMITS OF TOTAL SOLIDS
AND SELECTED MINERALS IN DRINKING WATER
AS DELIVERED TO THE CONSUMER

	<u>Permit</u>	<u>Temporary Permit</u>
Total Solids	500 (1,000)*	1,500 parts per million
Sulphates	250 (500)*	600 parts per million

* Numbers in parentheses are maximum permissible, to be used only where no other more suitable waters are available in sufficient quantity for use in the system.

It is significant to note, as comparisons are made of the above tabulations, that of the 32 well water analyses received from applicant in this record, the measure of total dissolved solids in ppm in water exceeded in all but two samples the generally comparable measure of total solids residue in milligrams per liter (mg/liter).

Applicant stated that the samples which exceeded the limits permitted under its temporary permit all were taken on May 16, 1963, and that immediate and effective remedial action was taken. The record does not indicate how long the water quality had exceeded permissible limits since the previous taking of samples on April 15, 1963, nor does it indicate how much time elapsed after the taking of the samples before remedial action was taken. Further, applicant stated that samples taken from the distribution system during the period March 3 through March 16, 1964, show tds and sulphates in ppm below those required by the Department of Public Health for a permanent permit. Applicant notes that it believes that since the advent of MWD water on February 27, 1964,

the basic cause for these complaints has been eliminated and we note the improved results of water samples after this event.

The following tabulation sets forth information on the quality and cost of water available to applicant:

Water Quality and Cost Data

Well No.	Total Solids (Dissolved) (ppm)	Total Solids (Residue) (mg/liter)	Sulphate (ppm)	Production 1963 (acre-feet)	Cost	
					Oper. & Maint. (acre-feet)	Other (acre-feet)
1 (a)	1287	1080	258	8.2	\$105	\$970
2	1403	1306	546	20.0	88	230
4	1392	1302	552	7.7	103	518
6	1372	1284	480	97.0	49	65
7 (a)	1447	1256	435	120.0	49	42
8	1506	1449	571	27.8	95	354
9	1455	1397	636	48.0	53	118
12	1600	1481	620	57.0	45	48
13	1022	945	342	3.6	205	999
21	1619	1525	724	178.0 (c)	55	189
31	1194	1036	431	12.7	96	259
32	1626	1548	648	2.9	290	2,666
33	1483	1420	581	43	69	87
37	2614	2614	1272	88.3	(b)	(b)
41	2906	2750	1210	47.1	(b)	(b)
45	1321	1320	550	50	55	120
MWD	779-782	715-718	300	-	-	-

- (a) Data inconclusive on iron and manganese content.
 (b) No cost data in record.
 (c) Costs based on present estimated capacity of 60 acre-feet per year.

The cost of MWD water to applicant is \$50 per acre-foot.

The peak day of usage on applicant's system in 1963 amounted to 2,500,000 gallons of water and was estimated by applicant to be 3,000,000 gallons in 1964. MWD water is presently available at the rate of 3,000 gallons per minute or 4,320,000 gallons per day. We find that applicant has available sufficient MWD water that it need not use water from its wells except in emergencies.

Applicant's witness testified that the utility intends to use a maximum of 18 percent well water and that based on the Colorado River Water 1961-1962 average total dissolved solids of 682 ppm, the blend would not exceed 792 ppm in its 18 percent blend.

We find that applicant's customers will not be reasonably satisfied with a water of less quality than that of MWD and that it is reasonable that applicant be permitted to serve to its customers water obtained only from MWD or the Village Water Company and to serve water from its wells only in emergencies.

In response to requests for a demonstration of the blending and testing procedures which would assure that consumers would be served with a prescribed blend of water, after two inadequate responses applicant demonstrated how a blend of water would be obtained in the reservoirs which would not contain total dissolved solids exceeding 950 ppm, but applicant did not demonstrate how the quality of the mixture of this reservoir water and MWD water, which it proposed to serve its customers, would be assured. We find that applicant has not reasonably demonstrated its willingness and ability to deliver to its consumers a blended water of any prescribed quality.

On August 27, 1964, the California Department of Public Health granted applicant a domestic water permit without a public hearing, based on the primary water supply source being from MWD and the use of local wells being considered only in the light that the well water will be treated and then blended with MWD water prior to distribution to render it acceptable for domestic uses. Among other provisions the permit provided that the water quality distributed to consumers should not exceed 500 ppm sulphates or

1,000 ppm total dissolved solids and that the amount of water from the MWD used in blending should be increased if an undue number of consumer complaints are received. The permit letter of transmittal notes that applicant is required to operate conscientiously the treatment and blending facilities to ensure that a satisfactory quality of water is distributed to consumers at all times.

The previous finding makes unnecessary further discussion of the staff's blended basis.

Applicant's estimate of operating revenues under present rates is \$36,000 less than that of the staff. This difference results in part from the staff assumption that the utility would serve customers in two subdivision units presently served by the Ventura County Water Works District No. 6, the title to and possession of the water systems installed in said units presently being the subject of pending litigation between the District and applicant. Both applicant and staff included in their rate bases amounts for said water systems but applicant did not reflect in its estimate any revenue from customers residing in said units. This record does not contain the data necessary to adjust applicant's rate base so as to be consistent with its revenue estimate for said units. We find reasonable the staff estimate of 2,980 customers in the year 1964.

Applicant realized the following average revenues per metered customer:

1961	-	\$90.60
1962	-	85.55
1963	-	76.59

Applicant estimated that the average revenue per customer in the test year 1964 would be \$81.20 and the staff estimated it would be \$88.00. The staff estimate considered temperature and rainfall conditions, improved water supply and consumption growth. The staff estimate of average revenue per customer falls within the range of applicant's actual experience since 1961. We find the staff estimate reasonable.

Under present rates applicant's estimate of operation and maintenance expense is \$15,600 less than that of the staff, excluding the Village Water Company contract which will be considered later. The higher estimates of the staff for purchased water are partially offset by applicant's higher estimates of pumping power, labor and telephone and telegraph expenses. Applicant's argument that the staff estimate of water losses, 9.1 percent, is too low considering the actual loss in 1963 of 16 percent is not persuasive considering the change in operating conditions. We find reasonable the staff estimates of operation and maintenance expenses after decreasing the expense for purchased water to reflect the cost of water obtainable from the Village Water Company, as hereinafter discussed, and adding \$1,800 for telephone and telegraph expense to reflect the remote location of applicant from its headquarters in Northern California.

Applicant's estimate of administrative and general expenses exceeds that of the staff by \$10,300. The principal items of this difference involve the estimates of regulatory commission expense and outside services employed expense and the allocated expense for mutual service incurred at associated Stamford, Redding and Sacramento headquarters.

The staff estimated the cost of the present rate proceeding to be \$3,000 and the applicant in Exhibit 16 estimated \$7,500, amortized over a five-year period. After ten days of hearing, applicant estimated the cost of this proceeding to be \$30,435. The stock purchase agreements by which ownership of applicant was transferred to Citizens Delaware were conditioned as follows:

"If the Commission shall make any determination in a rate case or in any other proceeding for any reason at any time within the period of time specified, so that the aggregate rate base computation for utilities (without any consideration of cash working capital) when reflected back to the closing date of the aforesaid Stock Purchase Agreements amounts to less than \$1,638,000, either by reason of reduction in original cost, increases in accrued depreciation, transfers to contributions or advances or for any other reason which is attributable to transactions entered into on or before the closing date, then the purchase price specified in the aforesaid Agreements shall be reduced by an amount equal to sixty percent (60%) of the difference between \$1,638,000 and the aforesaid rate base computation. ..."

Further, in connection with the foregoing, applicant was required within a specified time to increase its capitalization, to apply for permission to issue additional stock, to file and prosecute with diligence an application for increased rates with this Commission, and to use its best efforts to protect the interests of the sellers of the stock to the end that the purchase price would not be reduced. Noting the primary and extraordinary interest of stockholders in this proceeding, we find the staff's estimate of regulatory expense to be a fair and reasonable amount to be included in our adopted summary of earnings.

We have recently reviewed in detail the issue of mutual service expenses to applicant and its affiliates in Decision No. 68443, dated January 12, 1955, in Application No. 45625, and,

consistent with the findings therein and the preceding finding, find the staff's estimate of administrative and general and miscellaneous expenses in 1964 to be reasonable after adding \$300 to the allocated mutual service expense and \$300 for additional direct charges to California operations from Stamford.

Applicant's estimate under present rates of taxes other than income is \$16,968 greater than the staff's estimate, due mainly to the difference in ad valorem tax estimates, \$16,468 resulting from staff exclusion of nonoperative plant.

Witness for applicant testified that he had been informed by "our people" that wells will be included in the 1964 ad valorem tax assessment for the first time. The staff witness testified that the practice of county assessors has been not to assess wells as "a hole in the ground" but to give more value to the land associated with wells. Applicant has not presented sufficient information for the Commission to weigh the effect of the alleged change in the appraisal basis even if such should be material in view of the finding made hereinafter on property used and useful in rendering utility service.

Further, applicant requests authority to amortize over a five-year period as an extraordinary expense the amount of ad valorem taxes, \$21,583, which will be paid in the period January 1, 1964 through June 30, 1965 on the plant recommended by the staff not to be included in the rate base. We are unable on the basis of this record to determine what portion of the \$21,583 results from applicant's including in its plant accounts those items which are now nonoperative as a result of use of MWD water and other nonoperative items. We will include in the adopted summary of earnings the amount of \$4,300 to amortize this extraordinary tax expense over five years.

Applicant estimated 1964 franchise taxes to be \$2,000 under present rates and \$4,100 under proposed rates and the staff estimated \$1,800 and \$3,500 for corresponding amounts. Applicant included in its estimate provisions for county franchise tax on revenues attributable to all of its plant in public property. The staff excluded revenues attributable to former State plant in public property since under the State Water Company franchise such taxes will not be payable until March of 1967 and then for a partial prior year. Applicant introduced evidence which purported to show that the franchise tax presently applies to the merged properties. Subsequent to this testimony, staff witness was informed by the Ventura County Tax Collector that the franchise tax on revenue derived from former State plant is not due until March 21, 1966.

Applicant further contended that the staff calculation of the franchise tax did not reflect the change in percentage of plant in public ways which would result if the staff's recommendation of elimination of nonoperative plant were adopted. However, we find that applicant's showing does not separate the effect of former State plant.

We find reasonable the staff estimate of taxes other than income after we include in amortization expense the amount of \$4,300 for extraordinary tax expense.

In computing its estimate of income taxes the staff assumed that applicant was entitled to a surtax exemption of \$25,000. Subsequently, Conejo was merged with Citizens California. Applicant's witness testified that Citizens Delaware and its subsidiaries file a consolidated Federal income tax return. We

note that in response to a staff request on June 5, 1963, for a copy of the filed Federal income tax return on a consolidated basis, applicant supplied an income tax return on an individual company basis for the year 1962 as the latest filed tax return. Without applicant making available the information requested, the Commission cannot ascertain the reasonableness of its method of computing income taxes. We find that the staff method of calculating income taxes is reasonable after a proportionate adjustment of the surtax exemption to reflect applicant's merger with Citizens California but not to reflect affiliation with Citizens Delaware.

The recorded utility plant in service at the beginning of year 1963 was adjusted by the staff for ratemaking purposes as follows:

<u>Adjustment of Utility Plant in Service</u>	
Recorded plant balance as of 1/1/63	\$2,393,872
Accounting Adjustments:	
Property reclassified as nonoperative	(213,303)
Plant charges reclassified expense	(8,936)
Excess of recorded cost over purchase price of mutual water systems	(49,890)
Authorized sale of Tract 1244-1	(46,782)
Termination of contract with Village Water Co. for purchase of water	(118,503)
Property reclassified as nonoperative, resulting from purchase of MWD water	(604,398)
Budgeted retirements	<u>(7,700)</u>
Adjusted Plant Balance	\$1,344,360

The staff made the foregoing accounting adjustments following an examination of applicant's accounting records and supporting documents after a field inspection of applicant's water system.

Applicant's Exhibit 22 discloses that the only well which produced water in 1963, a period of water shortage, other than those

previously considered, is Well No. 35, and it does not now have a pump installed. Wells Nos. 3, 3A, 3B, 5, 10, 11, 42, 43 and Rothschild No. 2 are filled with concrete. Wells Nos. 22, 23, 24, 25, 38 and 44 have no pumps attached and are capped. Wells Nos. 34 and 36 are not capped, have pumps attached, but were not used.

Applicant purchased, for less than depreciated original cost, the water systems of two alleged mutual water companies, and the staff has allowed for rate-making purposes the lower purchase price rather than the depreciated original cost. Applicant objects to this downward adjustment of the recorded cost and argues (1) that the appropriate rate base standard for utility property is its original cost (less depreciation) to the person or company first dedicating it to public use, and (2) that the water system properties of these mutuals were dedicated to public use by the mutuals before their sale to applicant.

Applicant's argument proceeds upon a misconception of original cost principles as applied to rate proceedings. The critical factor underlying the adjustment in question is not the timing of dedication; nor does it turn upon whether or not these were "true" mutuals or mere subdividers' tools designed to assist in the development and sale of land. Rather the adjustment depends upon the appropriateness of using depreciated original cost under circumstances which suggest that it would be unrealistic or unfair. Thus, for purposes of discussion, we may assume that these were bona fide mutual water companies; that, from the beginning, their systems were dedicated to public use; and that they were exempt from Commission regulation solely by virtue of §2705 of the Public Utilities Code. (See Yucaipa Water Co. No. 1 v. Pub. Util. Comm., 54 Cal.2d 823, 827-831.) We may also assume that, under such circumstances, we would disallow in rate base any premium (above the mutuals' depreciated original cost) which a regulated utility might pay to acquire the systems. Still it does not necessarily follow that we should

ignore the payment, by a regulated utility, of a lower price than the mutuals' depreciated original cost.

If a regulated utility purchasing dedicated property were allowed to pass on to its customers a price higher than original cost, the parties to the transaction would be in a position to frustrate the application of the original cost standard by arranging a transfer of ownership at a premium. The seller would receive, at the expense of future ratepayers, more than his original cost, and yet the willingness of the purchaser to pay such a premium would have little significance since he himself would not bear the burden. On the other hand, the willingness of a seller to accept a price below his depreciated original cost can be persuasive evidence that the property has suffered a deterioration in value and is no longer worth depreciated original cost. The Commission may consider such evidence in establishing a rate base for rate-making purposes. (Market Street Railway Co. v. Railroad Commn., 324 U.S. 548, 564-568, 65 S.Ct. 770, 89 L.Ed. 1171, 1183-1185.) Moreover, on the stated assumption that these were bona fide mutuals, it is important to bear in mind that they were, in effect, customer owned. Customer donations of plant to a public utility are normally disallowed in calculating rate base; it would be inequitable to permit the utility to earn on property provided by the customers themselves. Even if the property in question be deemed at the time of sale to have been still owned or controlled by the subdividers, any difference between its true value and the price paid by applicant is in reality a subdivider contribution and should be disallowed in rate base. Such an approach is analogous to the long-standing treatment accorded by the Commission to subdividers' advances under the water main extension rule; only the amount repaid to the subdividers by the utility is allowed in rate base.

We find that the staff adjustment of \$43,233 in connection with the purchase of the water system properties of Starlight Mutual Water Company and Waverly Heights Mutual Water Company is reasonable for rate-making purposes.

In addition the staff made accounting adjustments in the amount of \$8,936 to reclassify recorded plant charges to expense and to eliminate \$27,238 of plant charges which had been reclassified by applicant since its purchase by present owners as "cost of plant acquired" but without being fully supported.

In 1961, applicant entered into two surplus water agreements with Janss Investment Company (Janss) which were later superseded by a contract, dated January 4, 1963, with Janss' subsidiary, Village Water Company (Village). The parties, by Decision No. 65963, dated September 10, 1963, in Application No. 45527, were authorized without a hearing to carry out the terms and conditions of the agreement. The agreement recited that applicant had already reimbursed Janss and Village \$110,723.59 to cover the cost of five wells drilled on Village property and for transmission mains and booster facilities installed for applicant's use at Village Plant No. 1. Three of the wells were nonproductive, for which the staff made an accounting adjustment of \$20,630 to applicant's earned surplus. The ownership of the facilities is and remains in Village but applicant is entitled to be furnished up to 500,000 gallons of water per day at a charge of \$38.50 per acre-foot, but subject to the limitations of actual well production, needs of Village customers and mechanical failure. The contract may be terminated by Village at any time after applicant is entitled to receive an average of 500,000 gallons per day of MWD water. If the contract is so terminated, Village is to refund to applicant the total amount advanced less 10 percent of the amount for each year the facilities have been used.

The staff assumed that Village would terminate the agreement upon the availability of MWD water, by which time applicant had advanced \$118,503 to Village and Janss. Applicant produced a letter from the manager of Village which stated "there is no intent on the part of Village to terminate this agreement in the foreseeable future". This record does not disclose under what

conditions Village may terminate the agreement. The staff argued that the agreement was an accomplished fact at the time it was submitted to this Commission, applicant was imprudent in entering into the agreement, the benefits from the agreement have been meager, and that the effect of the contract should be eliminated for rate-making purposes. ✓

Without further showing on the productivity and capability of the wells, the needs of Village customers for water from the wells and other relevant considerations, we are reluctant to follow the staff recommendations at this time. We will include the effect of said agreement in the adopted summary of earnings by providing for the recovery of the investment therein, including nonproductive wells, through charges to operating expense over the life of the contract, and by adjusting the staff rate base to include the unrecorded amount of the contract. Furthermore, we will reduce the MWD water to be purchased by the 500,000 gallons per day presumed to be available from Village.

Applicant argued that the staff adjustment for non-operative equipment should be reduced in the amount of \$13,000, the estimated investment in a 210,000-gallon tank planned to be installed at some undisclosed future date.

We find the staff adjustments of recorded plant to be reasonable for the purpose of this proceeding with the exception of that for the Village agreement.

The staff estimate of depreciation expense is \$28,500 less than that of applicant and the company's weighted average depreciation reserve is \$253,288 greater than that of the staff.

For nonoperative plant installed prior to the purchase of applicant by its present owner, the staff adjusted the depreciation reserve in the amount of the accrued depreciation. For nonoperative plant installed subsequent to the purchase of applicant by its present owner, the staff adjusted the depreciation reserve by the amount of the original cost of the plant. This last procedure is approximately equivalent, but not as appropriate for accounting purposes, to amortizing the unrecovered original cost of the nonoperative property over the average remaining service life of like plant and allowing earnings on the unrecovered amount at the allowed rate of return.

The allowance of amortization for the unrecovered original cost of nonoperative plant as an expense in setting rates is not a right of the utility but is within the discretion of this Commission depending on the particular circumstances. Under normal circumstances the unrecovered cost of plant which becomes nonoperative short of its service life expectancy is but one of the risks of doing business for which utilities are compensated by the allowance in the rate of return for equity earnings. There are circumstances which may justify amortization where it is reasonable to compensate for or encourage the development of superior, or the continuation of, utility service. We note that applicant appears to have been rendering service at less than fully compensatory rates and has not been accruing an adequate depreciation reserve during the period of development of its service area. Under the circumstances we find that the staff estimates of depreciation expense and adjustments to depreciation reserve are reasonable.

The difference of \$974,229 between the estimated rate bases is largely due to the adjustments which have been previously discussed.

Applicant did not take exception to a staff adjustment to increase advances for construction by \$72,461 for an unrecorded amount received to finance main extensions, but objected to the staff weighting of advances for construction.

We find the staff rate base reasonable after decreasing the weighted advances for construction by \$42,000 so that the weighting of advances for construction will be the same as that assumed for construction work.

Service

In addition to objecting to the quality of water, protestant testified to instances of alleged mismanagement. Of the written complaints nine related to quantity of water, two to pressure, thirteen to service, twenty-nine to high bills, two to management and five to miscellaneous matters.

We will require applicant to make a periodic report of the complaints it receives and the disposition thereof.

Rates

A representative of the Ventura County Fire Protection District protested the proposed increase in rates to be charged for public fire protection service and presented a tabulation of the average annual charges per hydrant paid to utilities, both private and public, by the district. The average annual charges per hydrant ranged from \$8.64 to \$60.00, the average for all public utilities being \$39.12, and the average for applicant being \$47.16. Applicant made no showing in support of its proposed rate spread,

nor are we able to tell from this record what the average annual charge will be under proposed rates. However, the staff report indicates that fire protection service bills will be increased by 19 percent. Relative to the increases of approximately 100 percent requested for metered customers, the proposed increase in public fire protection service appears moderate.

Adopted Results

The staff recommended that the rate of return for applicant be within the range of 6.4 to 6.6 percent on rate bases which would yield earning rates on common stock equity ranging from 8.69 percent to 9.16 percent. Applicant testified that a rate of return in the range of 6.5 percent to 6.9 percent would be reasonable, which would yield earning rates on equity from 10 to 12 percent.

We find that the estimates under present and authorized rates set forth below are reasonable for the purposes of this proceeding:

ADOPTED SUMMARY OF EARNINGS

<u>Item</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 281,800	\$ 370,000
<u>Operating Expenses</u>		
Operation & Maintenance	135,000	135,000
Admin. & Gen. & Misc.	25,000	25,000
Taxes Other Than on Income	27,100	27,700
Depreciation	39,800	39,800
Amortization	18,200	18,200
Income Taxes	100	26,700
Total Operating Expenses	\$ 245,200	\$ 272,400
Net Revenue	36,600	97,600
Depreciated Rate Base	1,501,700	1,501,700
Rate of Return	2.44%	6.50%

Findings

The Commission finds that:

1. The foregoing adopted rate of return, operating revenues, expenses, including taxes and depreciation, and rate base, are reasonable for the purpose of prescribing rates.

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

3. The increases in 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.

We conclude that applicant's request for authority to increase its rates should be granted in part as provided in the following order and that the present restriction on the use by applicant of its local well water should be modified to permit the emergency use of such water.

Under the authorization herein granted the monthly bill for the typical usage of 2,100 cubic feet per month will increase from \$7.25 in State Water Company area and from \$7.70 in all other of applicant's areas to \$10.05, increases of 39 percent and 31 percent, respectively.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Citizens Utilities Company of California is authorized to file the revised rate schedules attached to this order as Appendix A. The effective date of the revised schedules shall be May 1, 1965, or four days after the date of filing, whichever is later. Concurrently with the filing

authorized herein, applicant is authorized to cancel by appropriate advice letter its presently effective Limited Metered Service Schedule No. CO-1L, Limited Private Fire Protection Service Schedule No. CO-4L and Limited Public Fire Hydrant Service Schedule No. CO-5L, and to provide for serving those customers under the rate schedules attached hereto as Appendix A.

2. Within sixty days after the effective date of this order, Citizens Utilities Company of California shall file with this Commission for review the journal entries it proposes to use for the purpose of recording on its books of accounts the total of \$272,129 of accounting adjustments relating to plant set forth on Table 3-D, pages 3-21, of Exhibit 25 in this proceeding, less adjustment of \$20,899 for the three unproductive wells drilled by Village Water Company. Concurrently with the foregoing, Citizens Utilities Company of California shall also file with this Commission for review the journal entries it proposes to use for the purpose of recording on its books of account the adjustment, \$604,398, for plant no longer used and useful under operations with Metropolitan Water District set forth as Item e on revised Page 8-3 in Exhibit 25-A of this proceeding, reduced by the cost of three wells selected by Citizens Utilities Company of California as those to be used for emergency standby service. Said journal entries shall be recorded by applicant on its books of account not later than 180 days nor earlier than 120 days after the effective date of this order, unless ordered otherwise by this Commission.

3. Citizens Utilities Company of California for its Conejo Valley area shall use for the purpose of accruing depreciation for the year 1965 the depreciation rates set forth in Table 9A (revised)

of Exhibit 25-A in this proceeding and shall submit for the review of the Commission a study of depreciation rates by accounts at intervals of not more than three years.

4. Ordering paragraph 1 of Decision No. 67178, dated May 5, 1964, in Application No. 43124, which reads:

"1. All restrictions upon Conejo Valley Water Company's service as imposed by prior Commission orders are lifted, subject to the provision that no local water will be blended with water obtained from Calleguas Municipal Water District unless authorized by the order in Application No. 45442."

is hereby modified to read as follows:

1. All restrictions upon Conejo Valley Water Company's service as imposed by prior Commission orders are lifted, subject to the provision that no local well water other than water from Village Water Company, or as may be required by emergency conditions, will be blended with water obtained from the Calleguas Municipal Water District.

5. Within thirty calendar days after July 1, 1965, Citizens Utilities Company shall file with this Commission a report setting forth all service complaints received from its customers in the area of Conejo Valley Water Company between January 1, 1965 and July 1, 1965. Said report shall set forth the action taken to investigate and satisfy each complaint and an explanation of the status of any unresolved complaints. Three such additional

consecutive half-yearly reports shall be filed with this Commission within thirty calendar days after January 1 and July 1 of each year.

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

Dated at San Francisco, California, this 6th day of APRIL, 1965.

Fredrick B. Holcomb
President

John S. D. [unclear]

George L. Hoover

Augusta

William L. Brandt
Commissioners

APPENDIX A
Page 1 of 5

Schedule No. CO-1

Conejo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Thousand Oaks and vicinity, Ventura County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.-ft. or less	\$ 5.30	(I)
Next 1,500 cu.-ft., per 100 cu.-ft.30	
Next 3,000 cu.-ft., per 100 cu.-ft.25	
Over 5,000 cu.-ft., per 100 cu.-ft.20	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 5.30	(I)
For 3/4-inch meter	5.60	
For 1-inch meter	7.00	
For 1 1/4-inch meter	9.00	
For 1 1/2-inch meter	11.00	
For 2-inch meter	15.00	
For 3-inch meter	25.00	
For 4-inch meter	40.00	
For 6-inch meter	60.00	

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

Schedule No. CO-4

Conejo Tariff Area

PRIVATE FIRE PROTECTION SERVICE

(T)

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Thousand Oaks and vicinity, Ventura County.

(T)

RATES

	<u>Per Month</u>	
For each 4-inch diameter service connection	\$ 8.00	(I)
For each 6-inch diameter service connection	12.00	
For each 8-inch diameter service connection	16.00	
For each 10-inch diameter service connection	32.00	
For each 12-inch diameter service connection	45.00	(I)

SPECIAL CONDITIONS

1. The customer will pay without refund the entire cost of installing the service connection.
2. The maximum diameter of the service connection will not be more than the diameter of the main to which the service is connected.
3. The customer's installation must be such as to separate effectively the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check or other similar device acceptable to the utility which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for general metered service, and/or may be grounds for the utility's discontinuing the fire sprinkler service without liability to the utility.

(Continued)

APPENDIX A
Page 3 of 5

Schedule No. CO-4

Conejo Tariff Area

PRIVATE FIRE PROTECTION SERVICE
(Continued)

(T)

(T)

SPECIAL CONDITIONS (Contd.)

4. There shall be no cross-connection between the fire sprinkler system supplied by water through the utility's fire sprinkler service to any other source of supply without the specific approval of the utility. This specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any such unauthorized cross-connection may be the grounds for immediately discontinuing the sprinkler system without liability to the utility.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system. (T)

APPENDIX A
Page 4 of 5

Schedule No. CO-5

Conejo Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

(T)

TERRITORY

Thousand Oaks and vicinity, Ventura County.

(T)

RATES

Diameter of Riser	Hydrant Outlet	Per Hydrant Per Month			
		Diameter of Main			
		4-inch (or smaller)	6-inch	8-inch (or larger)	
3-inch (or less)	Single 2½-inch (or less)	\$2.00	\$2.00	\$2.00	(T)
4-inch	Single 2½-inch	2.00	2.25	2.50	(T)
	Double 2½-inch	-	4.00	4.50	
6-inch	Double 2½-inch	-	5.00	5.00	

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. CO-1, General Metered Service.

(T)

2. The cost of installation and maintenance of hydrants shall be borne by the utility.

(T)

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

(Continued)

Schedule No. CO-5

Conejo Tariff Area

PUBLIC FIRE HYDRANT SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the type and size of hydrant and the specific location at which each is to be installed.

(N)

(N)

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

(T)