

**ORIGINAL**

Decision No. 73701

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CITIZENS UTILITIES COMPANY OF CALIFORNIA, a corporation, for authority to increase its rates and charges for its water system serving the areas of Guerneville, Rio Nido, East Guernwood, Guernwood Park, Northwood, Monte Rio, Vacation Beach, River Meadows and vicinity in Sonoma County.

Application No. 48905  
(Filed October 28, 1966)

Application of CITIZENS UTILITIES COMPANY OF CALIFORNIA, a corporation, for authority to increase its rates and charges for its water system serving the Niles-Decoto area in Alameda County.

Application No. 48906  
(Filed October 28, 1966)

Application of NORTH LOS ALTOS WATER COMPANY, a corporation, for authority to increase its rates and charges for its water system serving portions of the cities of Los Altos and Mountain View in Santa Clara County.

Application No. 48907  
(Filed October 28, 1966)

Application of CITIZENS UTILITIES COMPANY OF CALIFORNIA, a corporation, for authority to increase its rates and charges for its water system serving the areas of Montara, Marine View, Farallone City, Moss Beach and adjacent territory in San Mateo County.

Application No. 49023  
(Filed December 14, 1966)

Application of INVERNESS WATER COMPANY, a corporation, for authority to increase its rates and charges for its water system serving the communities of Inverness, Drakes-Bay and adjacent territory in Marin County.

Application No. 49024  
(Filed December 14, 1966)

Caspar W. Weinberger and John H. Cutler, for applicants.

Cyril M. Saroyan, Counsel, and J. E. Johnson, for the Commission staff.

OPINION ON MOTION TO DISMISS

On September 7 and 8, 1967, Commissioner Bennett and Examiner Coffey held hearings on the issue of the access to and review by the Commission's staff of the books and records of applicants and applicants' affiliates. The matter was ready for Commission action after receipt of a motion to dismiss by the Commission staff and the receipt on November 10, 1967, of applicants' brief in opposition to the motion to dismiss. All other issues relating to applicants' requests for increased rates and to the service aspects of applicants' operations in their various operating areas were and are deferred pending resolution of the issue herein being considered.

On July 17, 1967, attorney for applicants requested that an "informal hearing be scheduled by the Commission, or a commissioner, for the purpose of attempting to resolve the apparent impasse that now exists between the staff and the applicant with respect to the production of documents, which we and our clients believe to be, for the most part, irrelevant to the proceeding involved, and in many cases to be demands of unreasonable breadth." Since the Commission's Rules of Practice and Procedure do not provide for "informal" hearings to definitively resolve issues, public hearings were scheduled at the earliest convenience of applicants.

Applicants are wholly owned subsidiaries of Citizens Utilities Company (Citizens Delaware) which both operates and has subsidiary utility companies providing gas, electric, telephone and water services in more than 425 communities in the United States.

The headquarters of Citizens Delaware is in Stamford, Connecticut. At that office, administrative, accounting, engineering,

financial, legal and purchasing services are performed for Citizens Delaware and its California affiliates. An office is maintained in Redding, California, where limited administrative, accounting and engineering functions are performed for California telephone operations, and limited administration and accounting functions are performed for California water operations, including billing. An office is maintained in North Sacramento, where other limited administrative and engineering functions are performed for California water operations. Each district has its own manager for local supervision.

The administrative office at Stamford, in addition to providing general management and supervision, initiates or reviews all of the operating and construction engineering on other than routine projects and is responsible for the final approval of such engineering, initiates or reviews all proposed construction other than minor extensions and is responsible for the authorization or disapproval of such construction, provides legal services or engages suitable attorneys therefor, prepares annual operating and construction budgets in final form, negotiates the purchase of large equipment and construction contracts, and provides all of the financing required by Citizens Delaware and its California affiliates. The Accounting Department of the administrative office at Stamford provides general accounting management and supervision, prepares all income and franchise tax accruals and returns, reviews invoices of \$1,000 or more and makes payment thereof, administers all employee benefit plans and insurances, supervises audits, prepares studies pertaining to and selection of accounting machinery such as IBM, trains senior accounting personnel, prepares or reviews and finalizes reports to regulatory agencies, determines correct accounting

entries in other than routine matters, and prepares consolidated financial statements for Citizens Delaware and its California affiliates.

The administrative office at Redding performs bookkeeping services, maintains plant records, does the billing and maintenance of accounts receivable records except for the Niles Water District, reviews and pays invoices under \$1,000, prepares in draft form reports for regulatory commissions, prepares basic data for proposed operating and construction budgets, prepares monthly operating statements, and prepares monthly and other reports as requested by the Commission for Citizens Delaware and its California affiliates.

Applicants allege that the expenses of the administrative offices at Stamford and Redding are in part charged directly to Citizens Delaware or its California affiliates for which the expenses were specifically incurred, in part charged to capital accounts, and in part accumulated in clearing accounts called Mutual Service Accounts and distributed to the districts and California affiliates of Citizens Delaware on a basis identified as the "Four-Factor Formula", originating for Citizens Delaware and its California affiliates with the staff of the Commission in 1956.

Contrary to the foregoing allegation, it appears from a comparison of the showings of the current applications and the opinion in Decision No. 66366 (Parkway Water Company, Application No. 45176, dated November 26, 1963) that Citizens Delaware and its affiliates continue to oppose staff recommendations (1) that Stamford expenses should be charged to California operations only to the extent that such expenses are in the interest of California consumers and (2) that the proper method of effecting such charges

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to California operations is to allocate by the four-factor method only those items which remain after the elimination of amounts which can be identified and assigned directly which result from activities of no benefit to California consumers and those which relate to construction overheads. These staff recommendations were considered and adopted by the Commission in Decision No. 65404 (Inverness Water Company, Application No. 44221), Decision No. 65425 (Citizens California, Guerneville District, Application No. 44209), Decision No. 66729 (Citizens California, Boulder Creek District, Application No. 45164), Decision No. 66738 (Isleton Water Co., Application No. 45171), Decision No. 66366 (Parkway Water Co., Application No. 45176), Decision No. 68443 (North Los Altos Water Co., Application No. 45625), and Decision No. 68841 (Conejo Valley Water Co., Application No. 45442).

Based on acceptance of staff principles, substantial reductions in applicants' showings of mutual service expense were found reasonable by the Commission in each of those decisions.

The staff based its recommended reductions in mutual service expenses on an audit in 1962 made by the staff in Stamford of the Mutual Service Account, the report of the audit results being presented during the hearings in 1962 on Application No. 44221 of the Inverness Water Company. The audit disclosed that \$90,149 of \$586,662 recorded in 1961 in the Stamford Mutual Service Account could be identified and directly assigned to the operations of districts or subsidiaries of Citizens Delaware. Only \$2,795 of these identifiable direct charges were assignable to California operations.

A review of Commission decisions since 1962 demonstrates that applicants and their affiliates consistently have opposed the

staff recommendations on direct charges, have testified in opposition to specific staff adjustments in general terms, but have presented no factual information on which this Commission could judge the cost of such services rendered California operations. At no time was the Commission persuaded by applicants' showings that substantial amounts of Stamford expenses could not be identified and/or directly assigned to specific operations.

As early as November 26, 1963, in Decision No. 66366 (Parkway Water Company, Application No. 45176) the Commission said:

"In order that the Commission may be informed of staff recommendation of the amount of Stamford expenses which should be charged to California operations, it is necessary that the staff examine the Stamford books and records and/or the applicant make adequate responses to staff requests for data. It is not in the public interest that California consumers be required to bear the expenses of an audit in Stamford each year that applicant or an affiliate requests a rate increase. Applicant and its affiliates are placed on notice that the expense of such out-of-state audits may be disallowed in the future as a rate-making expense, or that the production of appropriate books and records in California may be required, or that the Commission will disallow expenses which are not proved by applicant to be reasonable."

After correspondence, requests for data, and conferences between applicants and staff, the Commission authorized two staff members from the Finance and Accounts Division of the Commission to travel, at State expense, to Stamford for the purpose of making an examination and audit of the accounting and other records underlying parent company charges to the California operating subsidiaries. The staff members were at the parent company offices from March 30 through April 19, 1967.

Staff requests for records and supporting data at Stamford during its audit have been grouped into 17 items, as follows:

1. Calculation of four-factor formula distribution -  
Years 1964-1967, inclusive.

Applicants' Position (A.P.) - Material will be furnished to extent it bears upon California operations. (Ex. 3.)

Status <sup>1/</sup> - Data for years 1964 and 1967 have not been furnished. Data for non-California operations have not been furnished.

Staff's Position (S.P.) - Examination of material as it pertains to California operations only would be inconclusive, since the four-factor formula and other methods used to distribute Stamford Mutual Service charges must be reviewed and tested as to their total effect and end result in equitably distributing actual accumulated costs to various operations both in California and other states. It is not possible to determine the reasonableness of the portion distributed to California utility operations without review of all charges accumulated and their distribution in total for a representative period. Although the calculation of the four-factor formula was supplied for some years, the staff has not been afforded access to records of investment and operations outside California to test and verify such basic data utilized in the formula. (Tr. p. 37.)

2. Computation of construction overheads (basis).

A.P. - Material will be furnished to the extent it bears upon California operations. (Ex. 3.)

Status - No material has been furnished.

S.P. - In addition to the same justification and rationale set forth under item 1, it is necessary to review, in total,

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<sup>1/</sup> Status as of September 7, 1967.

construction overhead costs incurred and methods employed in computing and allocating such costs to all operations in order to determine the reasonableness of allocations to a specific operation. The staff witness stated that "this information is necessary to the Commission in order to determine the extent, nature, and reasonableness of those overhead costs which relate to construction as it bears upon California operations. It is necessary to review such information for a number of years because the result of such allocations survive in the utility plant accounts of the operating companies in California." (Tr. pp. 41-42.)

3. Federal income tax returns and all supporting schedules - Years 1963-64-65, and any preliminary data for 1966.

A.P. - Request is irrelevant and does not bear on the applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - Return and data for 1965 made available for very limited period on last day of staff audit in Stamford. Returns for 1963 and 1964, and preliminary data for 1966 not furnished.

S.P. - Since there is no such thing as a federal income tax return relating only to the California operations in that a consolidated return is filed by the parent company which includes the operating results of its subsidiaries, it is necessary to review and analyze the consolidated tax returns for several years for the following reasons: (a) to be able to determine tax depreciation practices and



deferred tax accounting, and (b) to determine the basis for the correct amount of actual income tax liability incurred to be allocated among the various corporations, including those rendering utility service in California. Returns were requested for the years since the prior staff audit. (Tr. 29-30, 48-49, 53-54.)

4. General ledger and subledgers, including (a) plant ledgers, (b) revenue ledgers, (c) expense ledgers, (d) construction work in progress ledgers, years 1964-65-66, and access to prior years.

A.P. - Request is irrelevant and does not bear on applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - Ledgers for years 1964, 1965 and 1966 furnished. Although access to years prior to 1964 was refused, ledgers furnished included portion of year 1963.

S.P. - These records comprise the basic accounting records of Citizens Utilities Company as a whole. It is necessary to examine such records in order to be able to review and analyze those transactions affecting California utility operations. It is not possible to examine such records as they relate to California operations alone and arrive at any meaningful conclusions, particularly because data contained in the records requested pertaining to plant investment, revenues and expenses for the company as a whole and for the various separate operations form the basis of allocation of Mutual Service charges under the four-factor and other methods used to allocate such costs.

Additionally, it is necessary to review records for several years in order to note any changes in accounting procedures that may have an effect on accounting results affecting California utility operations, and to discover trends or patterns, if any there are, which may be reflected by various accounts. (Tr. 55-56.)

5. All books, journals, vouchers, work papers, etc., constituting sources of original entry, and supporting source documents thereto.

A.P. - Request is irrelevant and does not bear on applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - Specific requests for items in years 1965 and 1966 furnished only in part. No material for years prior to 1965 furnished.

S.P. - This item constitutes the basic source data for transactions summarized in the general ledger and subledgers thereto. While the staff's principal interest and concern pertain to those records and documents as they apply to California utility operations, many such records reflect total company transactions and accounting, bearing in part upon California utility investment and operating results. Specific request by the staff for each item, with specific identification, would not only be unduly time consuming, but would not be feasible in conducting an audit on a test check or sample basis. Obviously the staff would not be in a position of having prior knowledge of the type and nature

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of various source documents supporting accounting entries. Therefore, the staff argued it could not possibly provide the specific identification of each specific document as was demanded by the company. (Tr. p. 59.)

6. Procedures manual.

Status - This item has been furnished to staff.

7. Budgets, operating and construction, and latest cash flow statement.

A.P. - Request is irrelevant and does not bear on applications for rate increases, filed by Citizens California and its affiliates. (Ex. 3.)

Status - No material has been supplied.

S.P. - This information is necessary in conjunction with review of the plant, revenue and expense factors of the four-factor basis used to allocate Mutual Service charges to California. It is also necessary in order to be able to note any significant differences between budgeted and actual construction and operating results. The staff would use this material in determining any significant variations, changes, or trends in operating expenses, and estimates of both construction and operating expenses for the test year. This information is a basis for the staff's test of the reasonableness of the company's estimates of operating expenses and construction, an element of rate base. (Tr. pp. 61, 139.)

8. Latest pension, insurance and any other employee benefit plans and programs.

Status - This item has been furnished to staff.

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9. California general correspondence file, at least three years, maybe back further.

A.P. - Request is irrelevant and of a confidential nature to Citizens Delaware. Also, the production of these materials would be wholly unwarranted. (Ex. 3.)

Status - Access to the file was not permitted.

S.P. - A review of correspondence relating to California utility operations will furnish the staff with information concerning changes in accounting procedures, operational changes and other matters having an effect on present and future operating results in California. To determine whether such correspondence is relevant can only be determined by review. The staff is bound to respect the confidential nature of any information so obtained. It would use only such information that has relevancy to regulatory matters within the Commission's jurisdiction. The staff request contemplated a brief or sample review only of correspondence files, a part of normal audit procedure. (Tr. pp. 62, 64, 65.)

10. California Commission correspondence.

A.P. - Request is irrelevant and of a confidential nature to Citizens Delaware. Also, the production of these materials is unwarranted. The California Commission correspondence is not segregated from its general California correspondence. Further, all California Commission correspondence must necessarily be contained in Commission files. (Ex. 3.)

Status - Access to the file was not permitted and material was not furnished. The staff will use Commission files.

S.P. - The requested information would have furnished the Commission staff with a convenient and expeditious method of reviewing correspondence between the company and the Commission concerning its utility operations in California as they relate to matters concerning accounting, depreciation, income taxes and other information which are relevant to the pending rate proceedings. Although such correspondence is already in the Commission's files in its various divisions and departments, there could and would be considerable savings in time and duplicating costs if furnished to the staff by the company for review. (Tr. p. 66.)

11. Audit report file (Internal and External).

A.P. - Except that any internal audit reports pertaining to California operations will be made available to the Commission, the request is irrelevant and does not bear on the applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - External audit report for 1965 and supplemental report to stockholders was furnished. Audit reports for other years not furnished and access to both internal and external audit report files was refused.

S.P. - Audit reports alone are of limited use as a source of information since they are usually restricted to a presentation of financial and operating statements of a company with limited footnotes or comments pertaining only to certain accounts. Audit files, however, for both internal

and external audits contain much more extensive information on financial, accounting and organizational matters, often including recommendations for changes in or adoption of new accounting procedures, accounting adjustments, and related matters. The staff request was not intended to extend to internal audit reports and files pertaining to operations outside California; however, both the external audit report and audit file pertaining to the parent are relevant as a source of information which bears upon California utility operations. (Tr. pp. 69-70, 143, 145.)

12. Any studies prepared either in Stamford or in California regarding construction (i.e. Sacramento district office building), electronic data processing equipment analyses or similar studies relative to the California operations.

A.P. - Material will be furnished to the extent it bears upon California operations.

Status - Nothing has been furnished.

S.P. - Such studies would be indicative of management, engineering and accounting functions performed by parent company personnel in Stamford, for the benefit of California operations and paid for by allocation of Mutual Service charges. California prepared studies would also furnish support for the reasonableness of costs, both direct and indirect. (Tr. p. 71.)

13. Mortgage indenture.

Status - Material has been furnished.

14. Corporate minute books.

A.P. - Request is irrelevant and does not bear on the applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - Books were not furnished.

S.P. - Corporate minute books comprise a basic record of decisions of management, through its directors and officers, relating to the business affairs of the corporation. Of particular interest to the staff is information relating to proposed and accomplished property acquisitions, both utility and nonutility, in order to isolate and exclude from Mutual Service allocations to California operating expense accounts representing a portion of costs such as officers' salaries and travel expenses, incurred in such acquisitions. The minutes would also furnish information on the original cost and purchase price of utility properties, changes in organization and salary levels, transactions with affiliated companies and other matters, all of which would bear upon the investment in and costs of operation of utility operations in California.

(Tr. p. 77.)

15. Stock and stock transfer books and records.

A.P. - Material will be furnished to the extent it bears upon California operations. The stock transfer books and records will be available at the stock transfer agent's office in Chicago provided their inspection can be conducted by the Commission without expense to Citizens Delaware. (Ex. 3.)

Status - Limited access to stockholders' list provided.

S.P. - The review of stock ownership and transfer records is necessary to help determine whether goods or services are being supplied and at what price or cost to the parent company or its subsidiaries by any holders of substantial stock ownership in Citizens Delaware, and allocated to California operations. (Tr. pp. 78, 148.)

16. Access to annual reports and correspondence files of other states' jurisdictions.

A.P. - Request is irrelevant and does not bear on the applications for rate increases filed by Citizens California and its affiliates since the requested material relates to non-California operations. (Ex. 3.)

Status - Nothing has been furnished and access was not permitted.

S.P. - Annual reports to and correspondence with regulatory Commissions in other states are of material assistance in connection with review of the various methods used by the company to allocate Mutual Service charges, and the end total effect of such methods. The four-factor method used to allocate Mutual Service charges to California cannot be considered alone in determining whether such charges are being distributed in an equitable manner. Various methods used in other states and their effect must also be reviewed to determine whether California is bearing its proper share of allocated charges. Annual reports to other state jurisdictions would provide basic data for an expedited



review of allocation procedures and effects. Correspondence files on other regulatory agencies would also be helpful to the extent they contain information relating to the subject of Mutual Service charges and allocations. (Tr. pp. 81-82, 85.)

17. Any statistical analysis reports covering subsidiaries.

A.P. - Material will be furnished to extent it bears upon California operations. (Ex. 3.)

Status - Nothing has been furnished.

S.P. - Reports of this nature consist of monthly comparisons of budgeted construction and operating results with actual experience, periodic studies of rates of return being earned by various subsidiaries and districts, and analyses of operating costs and expenses. The nature, frequency and extent of such studies pertaining to California operations would be measures of the services provided by the parent company to California subsidiaries, the costs of which are allocated from the Mutual Service Account. (Tr. pp. 86-87, 153.)

Applicants presented witnesses to establish that several of the staff requests cannot be met because they are unintelligible or are impossibly vague. A staff witness testified that such terminology as "all books, journals, vouchers, work papers" was rather common terminology, phraseology, and nomenclature in connection with auditing and accounting.

Applicants maintain the staff motion seeks to cure illusory ills, arguing that during the test year charges made by the

parent to the utility operations within California amounted to less than \$40,000 for all of the water utility operations involved in the five pending applications, that this sum is less than 5% of the total cost of service of the five districts seeking rate increases, and that the total cost of service would be reduced only by 0.5% if the staff were successful in challenging as much as 10% of the costs in question.

This argument can be evaluated by considering the following summary from the current applications of amounts and allocation percentage for the Stamford Mutual Service Account:

Stamford Mutual Service Account

	1965 <u>Recorded</u>	1966 <u>Recorded and Estimated</u>	1967 <u>Estimated</u>
Total Expenses	\$839,957	\$906,300	\$998,100
Charged to Capital	(210,653)	(230,800)	(230,800)
Accounting Billed Directly	<u>(45,000)</u>	<u>(51,000)</u>	<u>(57,000)</u>
Net Expense	\$584,304	624,500	\$710,300
 Allocation to California			
Percent	38.40%	34.39%	34.17%
Amount	\$224,373	\$214,766	\$242,710
 Allocation within California			
Telephone Department	23.06%	21.67%	21.74%
Applicants' Water Operations	5.98%	5.49%	5.51%
Other Water Operations	<u>9.36%</u>	<u>7.23%</u>	<u>6.92%</u>
Total	38.40%	34.39%	34.17%

These amounts do not include other items which may be issues in these proceedings such as income taxes and various rate base and expense transactions, the details of which are included in the Stamford records but which were charged directly by California operations.

Citizens California filed revisions in its tariff schedules to reduce telephone rates in 19 of its 24 exchanges effective May 21, 1967, and agreed to remove the toll terminal charge of 5 cents on each incoming or outgoing toll call from exchanges, effective June 19, 1967. These reductions, effected by the Commission after extended negotiations, were agreed to by Citizens. They were based on Citizens' showings which were not audited by the staff. Efficient and timely regulation requires that any staff audit in Stamford encompass not only the current applications, but also California telephone operations and other California water operations. We reject applicants' argument that the staff audit can have only minimal effects.

We are not persuaded that the staff requests should be limited to so-called California operations. Citizens Delaware has chosen to operate what is in essence a foreign holding company which functionally services its subsidiaries in California in many ways. Such a corporate organization provides many opportunities and temptations for management to attempt to circumvent effective public utility regulation. Citizens Delaware and its affiliates have, as a review of this Commission's decisions clearly

demonstrates, repeatedly so utilized its organization.<sup>2/</sup> Applicants have had ample notice of the relevancy and materiality of the various areas encompassed by the staff audit requests which reflect the Commission's proper concern. For instance, in our Decision No. 68841, issued April 6, 1965 (Conejo Valley Water Company, Application No. 45442), in which writ of review was denied by the California Supreme Court, we advised applicant as follows:

"...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...."

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EXCERPTS FROM COMMISSION DECISIONS REFERRING TO  
MAIN EXTENSION CONTRACT TERMINATIONS

Citizens Utilities Company of California, Niles-Decoto District  
Decision No. 58851, dated August 4, 1959, in Application No. 40665

Although no adjustment to rate base was made in this proceeding to give effect to repurchasing from the parent company of main extension contracts originating with the California company's Niles-Decoto district because the effect on the ratepayers of this district is negligible in this instance, such transactions result in a profit to the absentee parent company which the subsidiary company has capitalized. This repurchasing arrangement by affiliated companies can have a tremendous effect on the net revenue and, although the adjustment in the instant case would be negligible, it cannot be overlooked. Therefore, applicant is placed on notice that this type of associated company transaction constitutes improper use of an affiliate to the ultimate detriment of the ratepayer.

Citizens Utilities Company of California, Boulder Creek District  
Decision No. 56729, dated January 28, 1964, in Application No. 45164

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.

Efficient and timely public utility regulation requires that applicants promptly and without hindrance cooperate with the Commission and its staff in accumulating, summarizing and presenting all facts relevant and material to the issues of a proceeding or the operations of a public utility. The Commission has engaged a highly competent professional staff on which it relies to make efficient and comprehensive investigations. These investigations are not in any sense, as characterized by applicants, witch hunts or fishing expeditions. These investigations are necessary and integral parts of an efficient and effective public regulatory procedure. Access to records and files is requested by the staff in order to most effectively and productively accomplish proper regulatory purposes which materially differ from normal corporate auditing. The Public Utilities Code empowers this Commission to establish systems of accounts to be kept by public utilities (Section 792) and to require of public utilities various reports, tabulations, computations, and other information (Sections 581, 582, 584), with appropriate protection of confidential material (Section 583). These provisions, together with the power of the Commission and its employees at any time to inspect accounts, books, papers and documents of any public utility (Section 314) in effect provide a regulatory discovery procedure, not available to the general public, for the purpose of implementing speedy and effective public utility regulation with a minimum of disruption of utility operations. With the staff investigation procedures public utilities are not required to produce at regulatory hearings proof of all accounting transactions in the form of original documents. It is the day-to-day accounting transactions over a period of years, as recorded in accordance with Commission prescribed accounting

procedures, that form the basis of nearly all future estimates of operating results upon which future rates are predicated. A staff request to be provided with "all" records or studies, or to have access to "all" files is entirely proper and reasonable in a public utility investigation. It is obviously an obstructionist tactic to construe a staff request for "all" records or studies as unintelligible or impossibly vague. Reasonable and competent professional individuals who mutually desire to communicate can quickly delineate the scope of material which actually exists and determine by a number of techniques those items of particular interest. Applicants, as public utilities, cannot anticipate that they can apply to Commission staff investigations the practical limitations which the courts and this Commission at its hearings would place on requests for large amounts of documents to be produced at hearings. In addition to minimizing hearing time requirements and disruption of utility operations, another basic purpose of the staff investigation is to relieve the Commission at hearings and, in case of judicial review, the California Supreme Court, of the burdens of unmanageable accumulations of documents.

Applicants have endeavored to limit the scope of the staff investigation by maintaining that data prior to that used in their showings are immaterial and irrelevant. Despite the requirements of the Commission's Rules of Procedure that applicants' rate increase applications set forth a summary of earnings for the test period or periods upon which applicants base their justifications for increases,<sup>3/</sup> applicants cannot anticipate that the staff is either bound by applicants' test year or years or may not review data of other years for trending or other purposes.

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<sup>3/</sup> Commission Rule 23(e) of Practice and Procedure, effective July 14, 1967.

Since Citizens Delaware is a foreign corporation and has not been declared to be a public utility subject to the jurisdiction of this Commission, this Commission in order to supervise and regulate applicants, under the holding company and subsidiary corporate organization of its own choosing, must under Section 701 of the Public Utilities Code require applicants to make available to the staff such information, including access to records and files, as may be necessary for the staff to adequately investigate and report to the Commission on applicants' current applications and all operations.

Findings and Conclusions

We find that:

1. All staff requests set forth in Exhibit 1 of this proceeding are proper, reasonable, comprehensible, necessary, material and relevant to the regulation of rates and services of applicants.
2. Applicants and officials thereof have unreasonably attempted to control the scope of the staff investigation and thus to minimize the amount of information available to the Commission by imposing arbitrary time, period, access and operation limitations on the staff audit of Stamford operations.
3. Applicants are wholly owned subsidiaries of Citizens Delaware, a foreign corporation, with common officials and directors, which functions as a holding and service company to applicants.
4. Applicants and officials thereof have obstructed the Commission staff investigation of their requests for authority to increase rates and have delayed unduly hearings and decisions upon the applications herein being considered.
5. Applicants and officials thereof have not refused to comply with an order of this Commission regarding the production

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of material, an order of this Commission not having been issued in respect thereto.

6. The test period relied upon by applicants is now obsolete due to delays caused mainly by the dilatory and obstructionist tactics of applicants and their officials.

We conclude that under Section 701 of the Public Utilities Code applicants should have until July 1, 1968 to file with the Commission amended applications which include a test period which reflects actual operations for the year 1967, that applicants should furnish to the staff without further out-of-state travel expense to the State of California such information and access as the Commission staff may specify as necessary to its investigation, and that decision on the staff motion to dismiss these applications should be reserved.

O R D E R

IT IS ORDERED that:

1. Applicants shall on or before July 1, 1968, amend Applications Nos. 48905, 48906, 48907, 49023 and 49024 to include a showing of a test period which includes the effect of actual operations during the year 1967.

2. Applicants shall before July 1, 1968, without out-of-state travel expense to the State of California, furnish to the Commission staff the material and access requested by the staff which are set forth in Exhibit 1 of these proceedings, to the extent such material and access have not been furnished previously and which continue to be required by the Commission staff. In addition, applicants shall before July 1, 1968, without out-of-state travel expense to the State of California, furnish to the Commission staff comparable



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material and access to such material for any period of time more recent than those specified in Exhibit 1.

3. Decision on the staff's motion to dismiss these applications is reserved pending compliance with this order by applicants. The staff may renew its motion at such time as lack of compliance with this order may become evident.

This order shall become effective twenty-five days after the date hereof.

Dated at San Francisco, California, this  
6th day of FEBRUARY, 1968.

President

*William J. Brennan*

*William J. Brennan*

*Jeff P. Morison*  
Commissioners

*I would dismiss  
without prejudice  
Bogert*

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