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ORIGINAL

Decision No. 76996

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; Amended April 23, 1968.)

Weyman I. Lundquist and John Cutler of Heller, Ehrman, White & McAuliffe, for applicant.
Woodrow W. Ulm, President, Chamber of Commerce, for Senior Citizens Group; Eva F. Scholz, for Women's Auxiliary Chamber of Commerce, protestants.
Harold J. McCarthy, Counsel, John E. Johnson and A. L. Gieleghem, for the Commission staff.

A.48905 DS/NB *

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O P I N I O N

Proceeding

This application was heard before Examiner Coffey in Guerneville on September 23, 26, 27, and November 4, and in San Francisco on November 6, 12, 13, 14, 19, 26, December 11, 1968, January 22, 30, 31, March 17 and March 21, 1969. On December 23, 1968, January 8 and 21, 1969, this matter was called for hearing and adjourned without the receipt of any evidence, at applicant's request. The matter was submitted on April 3, 1969, upon the receipt of the reporter's transcript.[1/] On March 21, 1969, applicant filed a petition requesting a proposed report which was distributed on October 9, 1969. Exceptions to the proposed report and replies to the exceptions having now been filed and considered by the Commission, this matter is now ready for decision. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

1/ Concurrently with this application, applicant requested increased water rates in its Niles district, Application No. 48906, and applicant's affiliate, North Los Altos Water Company requested increased water rates for service in Los Altos and Mountain View, Application No. 48907. On December 14, 1966, applicant requested increased water rates in its Montara district, Application No. 49023, and applicant's affiliate, Inverness Water Company requested increased water rates in and near Inverness, Application No. 49024. Since certain issues are common or related in these proceedings, counsel for these affiliated corporations agreed with staff counsel that the records of all of these proceedings can be considered in arriving at the decision in any of these proceedings.

In addition to the foregoing days of hearing, on September 7 and 8, 1967, Commissioner Bennett and Examiner Coffey held hearings on the issue of the refusal by Citizens Utilities Company, a Delaware corporation (Citizens Delaware), to permit access to and review by the Commission's staff of certain of the books and records of applicant,[2/] applicant's affiliates, and applicant's parent corporation, Citizens Delaware. By Decision No. 73701, dated February 6, 1968, the Commission after approving the staff-requested information, found that applicant, its parent and its affiliates had obstructed and delayed this proceeding. A ruling on the staff's motion to dismiss Applications Nos. 48905, 48906, 48907, 49023 and 49024 was reserved pending amendment of the applications to include a more recent test period and compliance with the order to supply the staff-requested material and to permit access to records. On April 23, 1968, the amended applications in these proceedings were filed, and subsequently the staff continued its investigation, but without full disclosure of pertinent information and availability of certain underlying and necessary records and documents.

2/ Herein "applicant" refers to Citizens Utilities Company of California and its Guerneville district, and "applicants" refers to Citizens Utilities Company of California, North Los Altos Water Company and Inverness Water Company.

On August 21, 1969, applicant filed a petition for interim rate relief pending conclusion of these proceedings. Decision No. 76169, dated September 10, 1969, partially granted the petition by authorizing an interim rate increase, subject to refund, based on the estimates of operating revenues, expenses and rate base submitted by the staff for the test year 1968 and a rate of return of 4.5%.

Applicant presented 48 exhibits and testimony by seven witnesses, including two consultants, in support of its request for authority to increase its rates and charges for water service in its Guerneville district in Sonoma County. Six witnesses from the Commission staff presented the results of their independent study and investigation of applicant's operations and those of its parent.[3/] Public attendance at the initial hearing was approximately 200 persons. All of the public present opposed the requested rate increase, 150 of those present had water quality problems and thirty people believed they had unsatisfactory water service. Twenty-nine customers made statements or testified. Half of the witnesses testified relative to dirt, heavy chlorination, and leaks. Other complaints related to the magnitude of the

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3/ This summary does not include the exhibits introduced and witnesses who testified on September 7 and 8, 1967, and does not include exhibits and witnesses who testified on rate of return in Application No. 49023.

requested increase in rates and the poor public relations and tariff administration by applicant's local management.[4/]

Corporate Operations and Service Area

Applicant is a wholly owned subsidiary of Citizens Delaware, headquartered at Stamford, Connecticut, is affiliated with six other California water service companies, and furnishes water service in ten separate areas in five counties. Telephone service is furnished by applicant in six separate operating areas. Citizens Delaware is a public utility company which directly or through its subsidiaries provides gas, electric, telephone and water and sewerage service to approximately 115,000 customers. In addition, Citizens Delaware engages in gas transmission and conducts in Alaska cold storage and related operations.

As of December 31, 1968, the Guerneville District served approximately 3161 metered customers, 7 private fire connections and 193 public fire hydrants in the resort areas of Guerneville, Guerneville Park, El Bonita, Rio Nido, Vacation Beach, East Guernewood, Monte Rio, Villa Grande and Monte Cristo along the Russian River. During 1968, applicant delivered 142,674 hundred cubic feet (c.c.f.). Monthly sales ranged from 26,077 c.c.f. in September 1968 to 4,829 c.c.f. in April 1968. At the end of 1968

4/ The number of public witnesses is not truly indicative of the volume of the public protest due to limitations of daily hearing hours and the statement by the Examiner to the public that cumulative evidence was not required, desired or added to the weight given the evidence by the Commission. The first day of hearings in Guerneville was entirely taken up with public witnesses. Applicant requested that the hearings scheduled with applicant's concurrence for September 23 and 24, 1968, not be held. This interruption of the announced hearing schedule would preclude a number of part-time residents from testifying.

there were about 410,000 feet of mains ranging from 1/2 to 8 inches in diameter. Water produced from 26 wells and creek diversions is boosted to different elevations by pumps ranging from 1/4 to 15 horsepower and held in storage having a total capacity of approximately 1,200,000 gallons. The increase in the number of customers since the last rate application has been small but significantly the size of the operations by other measures has steadily increased.

Applicant's Rate Proposal Request

Applicant's present tariffs provide for an annual service charge for all metered service plus an additional quantity charge for any water used.

The proper allocation of costs between summertime and all-year residents of resort areas has been a recurring problem which was considered for applicant previously by the Commission after public hearings in 1962 on the request for increased rates (Decision No. 65425, dated May 21, 1963, in Application No. 44209) and after receipt from applicant of an order cost of service study (Decision No. 67141, dated April 28, 1964, in Application No. 44209). The service charge type of rate was authorized to eliminate subsidization of the seasonal customer by the year-round customer and to eliminate the payment by the seasonal customer for a water allowance which was not used.

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

Present and Proposed Rates

Item	Per Meter Per Year Present Rates	Per Meter Per Year Proposed Rates	Increase
Service Charge:			
For 5/8 x 3/4-inch meter	$ 36.00	$ 56.00	55.6%
For 3/4-inch meter	48.00	75.00	56.3
For 1-inch meter	75.00	118.00	57.3
For 1-1/2-inch meter	132.00	207.00	56.8
For 2-inch meter	204.00	320.00	56.9
For 3-inch meter	488.00	765.00	56.8
For 4-inch meter	600.00	940.00	56.7
Quantity Rates:			
All Quantities, per 100 cu.ft.	.24	.40	66.7
Service Establishment Charge	4.00	4.00	-

The average annual metered sales over the past several years were approximately 4,400 cubic feet per customer. The customer with the smallest meter receiving 400 cubic feet per month would receive an average bimonthly bill of $7.92 under present rates and $12.54 under proposed rates, an increase of 58 percent.

Results of Operation

From Exhibits Nos. 19 and 71, estimates of the results of operation made by the applicant and the staff under present and proposed rates are compared in the following tabulation with the amounts adopted in this proceeding at rates which are authorized herein:

SUMMARY OF EARNINGS
(Year 1968 Estimated)

Item	Present Rates[c] Applicant	Present Rates[c] CPUC Staff	Proposed Rates Applicant	Proposed Rates CPUC Staff	Adopted Results
Operating Revenues	$151,385	$152,400	$235,355	$237,100	$168,200
Operating Expenses					
Oper. & Maint. Exp.	45,940	45,940	46,234	45,940	45,990
Admin. & Gen. & Misc. Exp.	26,784	21,440	26,784	21,440	19,400
Depreciation	21,434	21,320	21,434	21,320	21,320
Taxes Other Than On Income	26,448	25,630	26,448	25,630	25,630
Taxes on Income	8,981[a]	12,130[a]	52,192[a]	55,870[a]	17,370[b]
Total Oper. Exp.	129,527	126,460	173,092	170,200	129,710
Net Revenue	21,798	25,940	62,263	66,900	38,490
Depr. Rate Base	752,898	726,800	752,898	726,800	695,800
Rate of Return	2.9%	3.6%	8.3%	9.2%	5.53%

a Exclusive 5% surcharge, and involuntary conversion effect, inclusive of investment tax credit.

b Exclusive 5% surcharge and investment tax credit, inclusive of effect of involuntary conversion.

c Rates in effect prior to interim rates authorized September 10, 1969.

Operating Revenues

The estimates of revenue made by the staff and applicant agreed to within 1%. Applicant, however, contended that the staff estimates of commercial revenues gave undue weight to the extra consumption of water during two recent flood seasons, and that the staff had used the same adjustment for customer refunds at proposed rates as at present rates. Applicant used a 12-year average of consumption per customer in developing its estimated commercial revenues and the staff used a five-year period.

A review of metered revenues for the four years 1964, 1965, 1966 and 1967, since the last rate increase, discloses that the average revenue during the period is $147,894, without adjustment for refunds which were estimated by the staff to be $240 per year. Comparing this actual average performance with the staff's estimate of $145,700 and applicant's estimate of $144,636 for commercial revenues in the test year, it appears that the revenue estimates of both the staff and applicant are too conservative. However, since the differences are small and the staff estimate of revenues appears to be more reasonable than that of applicant, the staff method of estimating commercial revenues will be adopted for this proceeding. The estimates by applicant and staff of revenues other than commercial were identical. At a 5.53 percent rate of return the adopted results require $168,200 of operating revenue in the test year, an annual increase of $15,800 or about 11 percent. If applicant were now providing good service a rate of return of 7.2 percent would be reasonable and the adopted results would require $193,000 of operating revenue in the test year, an annual increase of $40,600 or about 27 percent.

Operating and Maintenance Expenses

The staff reviewed applicant's estimate of operating and maintenance expenses and concluded that it appeared reasonable for the purpose of this proceeding. Since the staff estimated uncollectible expense to be the same under both present and proposed rates, applicant's estimate under proposed rates is about $300 higher than that of staff. An increment of uncollectible expense will be included in the adopted results at authorized rates, based upon the staff recommendation of the use of applicant's actual uncollectible expense experience.

Applicant requested that its estimate of these expenses be adjusted for the staff's reclassification in 1967 of pump overhaul expense amounting to $1,081 from a plant account to an expense account. The primary purpose of the staff adjustment was to correct an unacceptable accounting practice. Since applicant did not disclose the basis of its estimate or what allowance for extraordinary expense was therein included, and since the staff witness was uncertain of the inclusion of the amount in question, applicant's request for upward adjustment of its operation and maintenance expense is not reasonable.

Applicant's estimate of operating and maintenance expenses as accepted by the staff are found reasonable with an uncollectible expense increment as previously discussed.

Administrative and General and Miscellaneous Expenses

Exhibit No. 19, the staff's original results of operation presentation, indicates a difference of $11,014 between the estimates of applicant and staff for administrative and general expenses. In Exhibit No. 71, the staff reflects modifications of its estimates so that the difference is reduced to $5,344. At first glance, the amount of this difference does not appear very substantial, but the issues encountered here in this proceeding were sharp and controversial out of all proportion to the amounts involved. It appears that matters of policy, precedent, and overall impact on applicant and its parent corporation are of concern here, not only in the water operations but in the more remunerative telephone operations.

The expenses here being considered divide into two main groups, direct and allocated mutual service expenses. Direct expenses are those directly identifiable with operations of the Guerneville District, while portions of mutual service expenses incurred at both the Redding, California, and Stamford, Connecticut, offices are allocated and reallocated ultimately to district expense accounts.

Substantial issues were raised regarding the following administrative and general and miscellaneous expenses:

Direct Expenses
- Injuries and Damages
- Employees' Pensions and Benefits
- Regulatory Commission Expenses

Allocated Expenses
- Mutual Service Charges:
  - Salary Normalization
  - Accounting and Internal Auditing Department Salaries
  - Engineering Department Salaries
  - Leasehold Improvements and Furniture and Equipment Purchases
  - Executive Compensation.

Injuries and Damages

Applicant estimated $1,169 for this expense; and the staff estimated $1,000, a difference of $169. Applicant implies in its brief that its estimate is better than that of the staff since the staff utilized an estimate derived by averaging recorded charges for the last five years while applicant used "actual" insurance rates in its estimate. Applicant's position is without merit since charges to this account may include not only the cost of insurance or reserve accruals but losses not covered by insurance and expenses incurred in the settlement of claims. During the five years considered by the staff the amounts recorded varied from $566 to $1,723. This record does not disclose how applicant's estimate was made but the magnitude of variations in recorded amounts cannot be explained as variations in "actual" insurance rates. We will adopt the staff estimate despite the eleven-year average of this account being $747 and the most recent three-year average amount being $703.

Employee Pensions and Benefits

Applicant estimated $4,988 for this expense in 1968. The staff, not being furnished with sufficient information by applicant on which to base an estimate, in its initial presentation did not include an allowance for this expense. Thereafter, in this record, applicant assumed its proper burden of proof and produced sufficient information to permit an evaluation by the staff which resulted in the staff recommending $3,970 as a reasonable allowance, or $1,018 less than that estimated by applicant. Between 1966 and 1967 the amount of this expense sharply increased from $1,940 to $3,679.

This expense item is a very controversial issue. Citizens Delaware adopted a new pension plan which provided extended and additional benefits for its employees and employees of its subsidiaries effective at the end of 1967. These pension costs are not distributed through the Stamford mutual service account, but are separately distributed by an accounting allocation based on payroll.

Pensions and other termination benefits for employees of Citizens Delaware and its subsidiaries are provided in accordance with the terms of two trust agreements setting up a "Citizens Utilities Employees' Efficiency Incentive Fund" and an "Employees' Pension Trust", Exhibits Nos. 28 and 29.

The employees' efficiency incentive plan provides that a fund will be created and administered by the management of Citizens Delaware. Payments into this fund to provide bonus benefits, in addition to those provided by the employees' pension trust, are made in any year to the account of any employee entirely at the discretion of the Board of Directors of Citizens Delaware. All company operations are reviewed and the board decides which operation among the many operations has demonstrated performance and results warranting a bonus to the employees involved. Employees at Stamford have had a substantial bonus declared on their behalf every year with the exception of two, with the executive group being the biggest beneficiaries. Employees of California telephone operations have had substantial bonuses each year until reduced substantially in 1967. Employees of California water operations since about 1964 have not received bonuses.

Without consideration of the reasonableness of benefits of this efficiency incentive plan, no showing of reasonableness having been made by applicant, we shall not include any amount in expenses for this plan since the basis of the granting of bonuses is not specified. The grants are arbitrarily determined by, and at the sole discretion of, management as a sharing of the profits of certain operations when the profits are considered to be satisfactory or superior. No bonus has recently been awarded to employees of water operations. It appears that the basic intent of the plan is a division between responsible employees and stockholders of such levels of profits judged by management to warrant employee reward. Under the circumstances the funds for the plan should be allocated from profits and not charged to expenses in rate regulation considerations.

The Employees' Pension Trust fund provides for the pension and other benefits usually associated with a pension plan and is under a contract with the employees by the company, implemented by trustees appointed by the Board of Directors of Citizens Delaware.

In the actuarial determination of employee pension expense an interest rate of 3-1/2% per year was assumed and the use of a 10% amortization rate for past service costs was advocated by applicant. After analysis of the showing made by applicant herein, including testimony by a consultant actuary and answers to staff cross-interrogatories, a staff witness recommended that a 3-3/4 percent interest rate be assumed in actuarial calculations and that the unfunded past service liability be amortized over the estimated future payroll of the present group. The record is not clear if the recommendation pertains to present group of employees or present group of participants in the retirement plan. It should, however, apply to only those plan participants who are eligible for benefits as a result of service prior to the inception of the pension plan.

Applicant presented expert actuarial opinion that the assumption of an interest rate of 3-1/2% is appropriate, based on a review of the earnings performance of the trust fund for the past seven years and that the rate must project prudently the earnings ability of the trust fund from 30 to 50 years.

The staff witness based his recommendation for the use of 3-3/4% rate of interest on the 1967 earning of the fund of 3.69% of book value, the large proportion of investment in low yielding U. S. Treasury bills and Farmer Home notes and the sizable investments in common equities yielding low dividend returns on book value but having substantial appreciation in value. The witness stated funds will in the future be available for investment at higher interest rates since new money will flow into the fund in the future in steadily increasing amounts and there has been a long-term secular upward trend in interest rates.

It appears that both the applicant and the staff are too conservative in their estimates of future earning of the pension fund. The operation of the present Citizens' pension plan trust fund began in 1960, with annual interest, dividends and realized gains increasing from $50 in 1961 to $43,737 in 1967. Consideration of fund performance during the past five or six years is appropriate.

Year End	Interest, Dividends, Realized Gains % Book Value	Unrealized Gains % Book Value
1962	2.46%	(4.46)%
1963	4.23	3.85
1964	3.56	7.92
1965	4.40	29.30
1966	6.62	8.15
1967	3.69	25.64
6-year average	4.16	11.73
5-year average	4.50	14.96

Considering that the expenses of the fund are paid by Citizens Delaware and its subsidiaries that participate, that officers and directors of Citizens Delaware are the trustees of the fund, that interest and dividend earnings are trending upward, and the above-delineated fund performance, a 4% assumed earning rate for the pension fund actuarial determinations will be adopted in these proceedings. We are aware that actuarial calculations will be conservative , long periods of time being postulated, when made to serve banking, insurance, trust and other fiscal purposes. However, due to continuing inflation, changes in salary levels and numbers of employees, upward trends of interest, dividends and other factors, actuarial requirements of the pension plan should be restudied, recalculated and reevaluated at intervals of less than five years. At such time all deficiencies or excesses should be taken into account. Today's ratepayers have as much right to pension expenses that are not excessive as employees have that their pensions be assured. Too low an interest rate assumption is as unfair to customers as too high an interest rate assumption is to employees. We are aware that unrealized gains are not generally taken into account in determining either the assumed interest rate for fund earnings or annual deposits to a trust fund until such time as the fund manager is convinced that the unrealized gains are permanent ones. Corporate pension funds invest in equities with the hope of obtaining capital gains to supplement earnings from interest and dividends. It is appropriate to weigh such unrealized gains. To do otherwise would be to deny the wisdom of pension investment in equities. In arriving at this conclusion little weight has been given to earnings relative to market value except in evaluating unrealized gains. While not passing on the reasonableness of contractual pension benefits, the relative current revision of the Citizens' pension plan, including vesting participants with increasing pension rights after eligibility, has been considered.

Because of inflationary trends in employee wages, probability of plan extensions in the future and the average age of the covered group, witness for applicant recommended that past service costs of pensions be amortized as quickly as possible, at a rate of 10% a year over a period of 12 years. This is the minimum period allowed by the Internal Revenue Service of the Federal Government for income tax purposes. It would appear that maximization of current tax benefits controls the period of amortization. The staff recommendation that unfunded past service liability be amortized over the estimated future payroll of the present group appears to be based on Decision No. 67369, dated June 11, 1964, in Case No. 7409, the investigation of operations of The Pacific Telephone and Telegraph Company, without consideration of factors which differentiate the two cases, such as history of unfunded amounts, average age of participants and changes in management policies. The amortization rate of 10% per year will be adopted for this proceeding only.

Applicant and staff also differed in that applicant would eliminate any allocation of pension amounts based on payroll to Washington Water & Light Company, Port Water Company and Larkfield Water Company since these utilities were purchased by Citizens Delaware in 1967 and the pension plan provides coverage for new employees after two or five years of continuous service, except by special action of the Board of Directors. The staff would allocate to all California properties, including the recently acquired utilities, such applicable pension costs for parent company employees at Stamford. The staff procedure is reasonable in that costs will thereby follow benefits if it is assumed that operations at Stamford benefit all properties.

The following reasonable pension expenses for applicants in the year 1968 will be adopted for the purposes of these proceedings:

Citizens Utilities Co. of California		
Guerneville District	(A. 48905)	$2,701
Montara District	(A. 49023)	1,501
Niles District	(A. 48906)	4,225
Inverness Water Co.	(A. 49024)	971
N. Los Altos Water Co.	(A. 48907)	1,355

These amounts reflect acceptance of the staff adjustments of Stamford payroll expense. While these amounts appear too small to justify the controversy and discussion, the gross total of the amounts recorded on the books of Citizens' affiliates in California, before capitalization, was $181,315 in 1968. Of this amount $147,322 was made on a special charge to the telephone operations. Exhibit No. 69 demonstrates that applicant's original estimate of

1968 Guerneville pension expense of $4,988 is excessive when compared with $4,261, the amount finally recorded in 1968. Much of this controversy, which consumed many staff man-days of labor and many hours of hearing time, could have been avoided if Citizens Delaware had cooperated with the staff in its investigation by producing promptly and without obfuscation for its review the substantial amounts of pension data that were ultimately produced for and tested in this record.

Regulatory Commission Expense

Applicant initially estimated regulatory commission expense in the test year for the Guerneville District to be $4,653. This estimate includes $2,892 for amortization of the cost of the 1962 rate case despite the Commission finding then of $1,900 per year as a reasonable amortization of regulatory expense over five years. The cost of the current rate case was estimated by applicant at $8,810 and amortized over five years with an annual amount of $1,762. Exhibit No. 53 increases applicant's estimate of regulatory commission expense for the Guerneville District to $19,346, with an annual amortization of $3,870. This exhibit increases the estimate of regulatory commission expense for the five applications being currently considered from $40,615 to $88,045.

The staff estimated regulatory commission expense to be $1,600 in the test year for the Guerneville District, prorating its estimate of the cost of the current proceeding and the unamortized amount of $1,900 from the last rate case over a five-year period. The staff reduced the estimate made by applicant by assuming two days of hearing instead of four, one copy of the reporter's transcript instead of two, one trip from Stamford and per diem for the lesser number of assumed hearing days.

Applicants argued that the uniform assumption of two days is unreasonable since it ignores the relative sizes of the districts involved, the complexity of the substantive issues, the lack of applicant's control of direct staff testimony and cross-examination by the staff and others. Applicants countered the staff view that good service minimizes hearing time required by customers by arguing that other factors cause customer turnout, such as relatively high percentage increases in rates because of the lapse of many years since the last increase and customer telephone and public ownership campaigns.

It is true that the actual number of days devoted to these proceedings exceeded the original estimates of both applicants and the staff. However, applicants cannot disavow responsibility for this length of hearing time or assume that they will be permitted to recover in rates unreasonable expenses merely because they were incurred. Not only would applicants burden the consumer with excessive expenses but they have caused the California taxpayers unnecessary regulatory burdens in these proceedings.

In preparing for its timely presentation, the staff has been forced by Citizens Delaware in effect to make two investigations and two sets of reports because of the delays caused by the initial refusal to provide adequate access to the books and records kept for the convenience of the Citizens corporate complex at Stamford. Applicants and their parent have refused to make requested studies, provide needed information, and have generally obstructed the staff in its efforts to efficiently and timely process these applications.

Other arguments presented by applicants in support of this regulatory expense, as set forth on pages 47 through 52 of the hearing memorandum, dated February 28, 1969, have been considered and rejected. We will adopt the staff-recommended regulatory commission expenses in these proceedings.

The operations being considered here are of such small and local character that it is not reasonable to expect them to support excessive regulatory expenses arising from the complexities of a holding-company type structure, remote headquarters with attendant added time and travel requirements, and duplication of efforts. The magnitude of the regulatory commission expense incurred by applicants would be more appropriate for a major integrated utility rate proceeding than for five small, local district operations.

Mutual Service Charges

In summary, applicant states that the Stamford office, 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 the financing required by the parent corporation and its affiliates. The accounting department of the Stamford office 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, 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 the parent corporation and its affiliates.

The administrative office at Redding performs bookkeeping services, maintains plant records, does the billing and maintenance of accounts receivable records, 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 the parent corporation and its California affiliates.

The accounting records maintained in Stamford by and for Citizens Delaware consist of general ledger, and supporting subledgers and the necessary books of original entry, including a journal, cash book and voucher register. A mutual service ledger contains all of the postings of original entry accumulating all costs of the parent company's general office in Stamford, with the exception of certain items with respect to federal income taxes and interest on debt. Distributions are made from the mutual service account for any direct charges, allocated accounting services and accumulated construction overheads. The remaining balance is then allocated to the operating districts or subsidiaries using the four-factor method for California properties, and a revenue basis for all other properties.

It is noted that differences arising from the use of four-factor method in California and revenue basis with respect to other operating districts and subsidiaries are reflected in an operating reserve account, which in effect contains the excess of costs allocated over costs actually incurred. Approximately $1/2 million has been so accumulated in this operating reserve account since 1961 and by the end of 1967. The effect of this practice is to record on the books of subsidiaries and operating districts expenses never incurred and thus misinform regulatory commissions of true operating results.

The staff has repeatedly recommended, and the Commission has accepted as reasonable, that the allocation of administrative and general expenses be made after items applicable to specific operations are first segregated and assigned directly to these operations. It is especially important that effective measures be taken to assure that as many of these expenses as possible are assigned directly. Indirect general expenses which have a significant relationship to a particular factor, such as pension expense to payroll, should be prorated after segregation on the basis of an appropriate single factor. Only the remainder, which should be a relatively small portion of the total, should be allocated by the four-factor method.[5]

5/ See Decision No. 66366, Nov. 26, 1963, Application No. 45176, and Decision No. 68443, Jan. 12, 1965, Application No. 45625 in which the Commission said:

> "... Applicant has failed to produce any convincing evidence that (1) the Commission should not follow the general principle guiding the staff, to wit, that Stamford expenses should be charged to California operations only to the extent that such expenses are in the interest of California consumers, and (2) the proper method of effecting such charges to California operations is to allocate by the four factor method only those items which remain after the elimination of amounts which can be identified and assigned directly, which result from activities of no benefit to California consumers and which relate to construction overheads.
>
> "In order that the Commission may be informed of staff recommendation of the amount of Stamford expenses which should be charged to California operations, it is necessary that the staff examine the Stamford books and records and/or the applicant make adequate responses to staff requests for data. It is not in the public interest that California consumers be required to bear the expenses of an audit in Stamford each year that applicant or an affiliate requests a rate increase. Applicant and its affiliates are placed on notice that the expense of such out-of-state audits may be disallowed in the future as a rate-making expense, or that the production of appropriate books and records in California may be required, or that the Commission will disallow expenses which are not proved by applicant to be reasonable ....."

These more direct methods are in contrast with the method used by Citizens Delaware, which, in effect, allocates practically all costs accumulated in "mutual service" on the blanket four-factor for its California operations and on a revenue basis for all other properties. Citizens Delaware's persistence in its unacceptable accounting practices unduly complicates and prolongs the regulatory process as the following discussion of the Stamford Mutual Service Account demonstrates.

Salary Normalization

During the years 1964 through 1967 the mutual service account was charged each year with the purported cost of salaries and related expenses of executive, administrative, engineering, and other personnel. Such charges did not represent actual expenditures for salary payments and related costs, did not represent liabilities incurred for the payment of such salaries, but instead included the estimated annual salaries applicable to vacant positions in the company's current table of organization. The following tabulation shows the staff adjustment to the year 1967 of these purely fictitious costs, and the amounts applicable to the years 1964, 1965, and 1966.

Year			
1964	1965	1966	1967
$136,940	$140,569	$137,378	$179,012

Applicant argued that these normalization procedures are neither mysterious nor evil and were made known to the staff prior to its audit in Stamford. However, applicant made no adjustment for this item when making its estimate of 1968 expenses, although it eliminated these expenses in reporting to the Federal Internal Revenue Service for income tax purposes. These costs which have not been actually incurred have been reported in operating reports to this and presumably to other regulatory commissions so that thus they may unwittingly permit unreasonably high earnings to continue. We find the staff adjustment reasonable.

Accounting Department Salaries

With minor exceptions all accounting department salaries incurred in Stamford are charged to mutual service accounts. At time of distribution of the mutual service accounts, 50% of accounting department salaries are billed directly to other than California subsidiaries and districts, and thereby removed from the mutual service accounts. Accounting functions as they relate to California operations performed at Stamford are limited to certain general accounting and administrative duties and the preparation of income tax returns. The Stamford accounting department is involved principally in maintaining the books of account of Citizens Delaware and subsidiaries and districts other than in California, Vermont, and a nonutility operation in Alaska. The accounting service, functions and records maintained at Redding for the California operations are essentially complete. For these reasons, the staff eliminated all Stamford accounting department salaries charged to mutual service except one-half of the chief accountant's salary and has also adopted applicant's elimination of the deduction of 50 percent for "Accounting Billed Directly." The following tabulation shows the computation of the staff adjustment of accounting department salaries allocated in part to California for the year 1967.

	Year 1967
Accounting Department Salaries Charged to Mutual Service	$88,866
50% Eliminated by Company as Direct Charges	(44,433)
Subtotal	44,433
Staff Elimination (All but 1/2 of Chief Accountant's Salary)	(37,746)
Adjusted Accounting Department Salaries	$ 6,687

Two officials of Citizens Delaware testified at length in support of applicants' position that accounting, tax and internal audit personnel at Stamford perform a wide range of functions for California operations.6/ The witnesses maintained that Redding personnel perform "bookkeeping" functions; that they could not adequately perform or were not qualified to perform the accounting, tax and internal audit function and services accomplished at Stamford. Applicants also argued that "California operations could not afford" the "services accomplished at Stamford for the benefit of the California operations", that it is not likely that employees having the requisite skills would be interested in working for water utility operations of the size involved in these proceedings.7/

Applicants' presentation is not convincing. Not only is the so-called direct charges for accounting services a

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6/ As an example of the application of accounting principles by Citizens Delaware which cause wonderment is the following statement in applicant's Exhibit No. 69:

> "At the end of 1968 the company decided after some discussions with the staff, to begin capitalization of the portion of the welfare and pension costs that is applicable to payroll capitalization."

7/ What is involved here in fact is a large combination of water and telephone operations.

misnomer, when an unsupported, arbitrary percentage is used to determine the "direct charge" but no factual study was presented of the actual time devoted by employees to various functions and entities. It suits the purposes of Citizens Delaware to centralize its accounting, auditing and tax functions and to effect controls which would not be possible with the dispersal of these functions to operating units. We find the staff adjustment reasonable.

Internal Audit Department Salaries

Included in this category are salaries of certain internal auditors as well as the salary of the tax accountant. It is not known to what extent the California subsidiaries benefit from the work of the internal auditors. It is known that the income tax returns for all subsidiaries are prepared in Stamford, Connecticut. It is also known that Citizens of California does have included in its personnel in Redding two internal auditors. The staff has eliminated salary expense of this department charged to mutual service in excess of the salary of one internal auditor and the salary of the tax accountant. The following tabulation shows the development of the staff elimination of internal auditors' salaries as well as the appropriate amount chargeable to mutual service account for the year 1967.

	Year 1967
Internal Audit Department Salaries Charged to Mutual Service	$30,113
Staff Elimination	(6,176)
Adjusted Mutual Service	$23,937

Applicants' position on this issue was summarized and discussed when considering the salaries of the accounting department. We find the staff adjustment reasonable.

Engineering Department Salaries

Engineering department personnel in Stamford are involved in hydraulic, gas, electrical, telephone and sanitary engineering. Most of the work as it relates to California properties involves functions of an administrative nature rather than actual engineering. Responsible engineering personnel are employed by the telephone department of applicant. It is believed that engineering work performed by this department can be reasonably identified directly with a particular property and that related administrative work is done by two engineers. For the above reasons, the staff has eliminated all engineering department salaries except those of one engineer and one-half of the salary of another. The following tabulation shows the computation of the staff adjustment of engineering department salaries allocated in part to California for the year 1967:

	Year 1967
Engineering Department Salaries Charged to Mutual Service	$66,595
Staff Elimination	(45,096)
Adjusted Mutual Service	$21,499

A witness for applicant maintained that electrical, telephone, water and sanitary engineers at Stamford perform many valuable functions for California operations, that California operations do not and could not afford to employ a fraction of the qualified personnel necessary to accomplish all of the engineering functions and services carried out at Stamford.

The testimony is not convincing since it deals with generalities and presents no specific instances to demonstrate the validity of applicants' viewpoint.

We are not convinced that remotely located engineering is in the interest of California customers.

"Too little and too late" engineering results are indicated by the almost universal complaints of customers regarding service. A remotely located engineering organization obviously cannot see the need and feel the demand for adequate service. Adequate engineering solutions to service problems over many years generally just have not been timely developed and implemented.

We find the staff adjustment reasonable.

Leasehold Improvements and Furniture and Equipment Purchases Erroneously Expensed in Year of Expenditure

An analysis of the records for the years 1966 and 1967 disclosed that certain office equipment and furniture purchases and substantial alterations and improvements to the leased Stamford premises were charged in their entirety to the mutual service account, and thereafter allocated to divisions and subsidiaries. It is the staff's position, based upon sound accounting practice, that such costs with respect to depreciable assets should be expensed over the service life of such equipment and that leasehold improvements should be amortized over a period no shorter than the remaining term of the present lease which expires in 1969. It is not known at this time if the company will negotiate for a new lease of the present premises or seek quarters elsewhere. In the event the present premises are retained, the amortization period for the leasehold improvements might properly be extended to the terminal date of the new lease. However, to be conservative, the staff concluded that the amortization period should begin with the year of expenditure and conclude at the end of 1969.

The following tabulation shows the effect of the staff adjustments spreading the equipment costs and leasehold improvements over the respective depreciation and amortization periods:

	Year 1966	Year 1967
Capital items expensed:		
Office Equipment	$ 7,262	$ 7,440
Leasehold Improvements	15,247	13,384
	22,509	20,824
Adjustment:		
Depreciation expense allowable on office equipment (5%)		737
Amortization of Leasehold Improvements:		
1966 - 1969		3,812
1967 - 1969		4,461
		9,010
Total Amount Charged Mutual Service Account		22,480
Staff Elimination (20,824 - 9,010)		(11,814)
Adjusted Office Furn. and Equipment Expense		$10,666

Applicants' witness testified that the parent corporation has consistently followed the procedure of charging to mutual service the cost of items of office equipment and improvements purchased for the Stamford office. The witness stated that the staff use of a 5% annual depreciation charge is unreasonable considering that the major item of office equipment purchased during 1967 was electric typewriters which have a useful life of 5 to 7 years. Applicants presented no testimony as to what they considered to be a reasonable remaining life depreciation rate on items which had not previously been expensed. Applicants maintained that this method was reasonable since their Exhibits Nos. 48 and 49 demonstrate that depreciation and maintenance of Stamford administrative office furniture and equipment for the past 10 years would average $19,158 and for the past 20 years would average $18,016.

The record does not indicate applicant's basis for including "maintenance" items in the depreciation or amortization schedules, an item normally accounted for as an item of expense. However, we do note that the annual total amounts shown in Exhibits Nos. 48 and 49 vary from less than $1,000 to over $43,000. Of concern to us here is this variability that distorts operating results and can result in regulatory inequities.

We find the staff adjustment reasonable. We cannot accept as reasonable the results shown in Exhibits Nos. 48 and 49 without further investigation and verification.

Systems and Operations Department and Rate and Research Department Salaries

The staff believes that the functions of these departments lend themselves to identification with specific subsidiaries or districts, and need not be allocated. The staff did not eliminate any of the salaries of these departments allocated to California. The staff recommended that in the future the parent corporation make every effort to determine the amount of salaries that could be charged on a direct basis to subsidiaries and districts.

Stenographic and Filing Department And Other General Office Salaries

The staff does not know to what specific or measurable extent California operations benefit from the duties performed by these departments. It was assumed that the benefits so derived would be in the same relationship as the staff-adjusted cost of the above departments allocable to California for the year 1967. Therefore, the staff eliminated an amount equal to the percentage elimination it found appropriate in all other departments includable in mutual service. The following tabulation shows the staff computation of adjustment of stenographic and filing department and all other general office salaries for the year 1967 allocated to California:

	Year 1967
Stenographic and Filing Dept. Salaries Charged to Mutual Service	$82,970
Less 59.40% Elimination	(49,284)
Adjusted Stenographic and Filing Dept. Salaries	$33,686
Other General Office Salaries Charged to Mutual Service	41,271
Less 59.40% Elimination	(24,515)
Adjusted Other General Office Salaries	$16,756

Applicants did not specifically argue this adjustment. We find the staff adjustment reasonable.

Other Mutual Service Accounts Relating to Salaries

The staff found that certain accounts are more or less directly related to the functions of the various department salaries. An analysis of these accounts indicates that no practical accounting methods would give sufficient data to identify and determine an equitable basis for distribution; therefore, the staff eliminated the portion of the costs in these accounts that is related to salaries eliminated as they affect California. The following tabulation shows the various accounts, the amounts recorded in mutual service for the year 1967, and staff adjustments to the amounts allocated to California in 1967.

Amounts Charged to Mutual Service - Year 1967

Telephone and Telegraph	$ 7,424
Stationery and Printing	7,652
Electricity, Postage and Other Office Supplies	38,756
Insurance and Employee Benefits	12,123
Unemployment and Old Age Benefits	16,707
	82,662
Less 59.40% exclusion	(49,101)
Adjusted Expenses	$33,561

The staff adjusted amounts for telephone and telegraph, stationery and printing, electricity and postage and other office supplies and employee wage benefits and taxes to reflect not only elimination of certain of these costs not considered appropriate for inclusion in mutual service, but also an elimination of a portion of the above expenses in ratio to the salaries of the various categories described above which have been eliminated or adjusted by the staff. The staff adjustments also include reduction of office rents and property taxes on approximately the same basis.

Amounts Charged to Mutual Service - Year 1967

Rents	$30,771
Property Taxes	20,856
	51,627
Less 59.40% exclusion	(30,666)
Adjusted Expenses	$20,961

Applicants did not specifically argue with this adjustment, apparently since it also follows from the basic adjustments.

We find the staff adjustment reasonable.

Payments to Florence Fetherston Charged to Mutual Service

Citizens Delaware purchased the stock of the Felton Water Company, a California utility, and certain parcels of real property during 1961. A part of the consideration was in the form of a note in the amount of $159,320, with interest at the rate of 3%. The amounts of principal and interest paid to Mrs. Fetherston since 1961 were charged in their entirety to mutual service through the year 1967. However, payments in the year 1967 were reversed out of mutual service at the end of 1967 and charged to investments in associated companies in the amount of $14,814.

The effect of this accounting for the principal and interest payments prior to 1967 was the inclusion in mutual service, as an expense, of expenditures which are properly chargeable to accounts other than mutual service. In total, $79,072 was unduly charged to the mutual service account during the years 1962 through 1966 and a substantial portion of this amount thereafter was allocated to capital and expense accounts pertaining to California telephone and water operations. Although no adjustment of 1967 operating expenses for California telephone and water operations is warranted because of the end of year 1967 adjustments, it remains a fact that California plant and expenses for the prior years and the test year rate bases and depreciation expenses are unduly inflated.

Decision No. 66729, dated January 28, 1964, in Application No. 45164, discusses the circumstances of the purchase by Citizens Delaware of the entire stock of the Felton Water Company from its owner for $225,920. Applicants alleged that $135,000, the excess of the stock purchase price over the $90,920 net book value of the stock, represented the cost of 18.866 acres of land which had in fact been owned and dedicated to the public by the previous owners of the utility. The Commission did not permit applicant to burden the consumers with the speculative amount of its purchase over a reasonable original or historical cost.

Miscellaneous Adjustments

The mutual service account for 1967 was adjusted by the staff to exclude charitable contributions in the amount of $1,650. A charge for consulting fees relating specifically to an economic or business survey in connection with the company's ice and cold storage operations in Ketchikan, Alaska, in the amount of $4,398 was also excluded and costs of a manager's meeting held in the year 1967 in Arizona were normalized by amortizing the costs of such meeting over three years, which the staff is informed is the normal interval between such meetings. Total costs of such meeting amounted to $9,593 and the cost for the year 1967 is calculated to be $3,197 requiring an exclusion from mutual service account of $6,396.

Counsel stated that applicants agree with all of these staff adjustments with the exception of that for charitable contribution, but applicant's presentation did not reflect the agreement.

We find the staff adjustments reasonable.

Construction Fees Capitalized

In accounting for plant construction overheads, Citizens Delaware utilizes for California a rate of 3.5% of direct charges to construction work in progress as an additive cost for expenses incurred at Stamford relating to such construction. This rate of 3.5% was established in connection with an earlier rate proceeding involving utility operations in California and was recommended and adopted by the Commission staff at that time. No subsequent study has been made to ascertain whether such rate is still appropriate. Construction overheads capitalized with respect to non-California properties range from 3.5% to 8% and in some instances the initial rate used with respect to a property is thereafter reduced as a concession to that particular property. Since all administrative and other costs associated with Stamford operations are accumulated in the mutual service account, including those relating to construction, it is logical that any portion of such costs capitalized should be removed from mutual service account before the remainder of that account is allocated to the various districts and subsidiaries, including those in California, as charges to operating expenses. The examination disclosed, however, that in 1967 construction fees capitalized in certain of the non-California properties were not credited to the mutual service account, but instead were credited either to the operating expense accounts of Citizens Utilities Company (Delaware) or credited to the account representing the investment of Citizens Delaware in operating subsidiaries in states other than California. The effect of this unacceptable method of accounting was to overstate the amount of expenses pertaining to operations included in mutual service account, and thereby to overstate the amount of such mutual service costs allocated to the expense accounts of operating districts and properties and subsidiaries, including those in California.

The accounting error in 1967, however, was corrected by year-end adjusting journal entries removing from mutual service account $154,715.00, of which the California portion was $53,779.00. It follows that no adjustment of 1967 allocations to California is required. However, to the extent that such unacceptable accounting practices were followed in prior years (the staff could obtain no information in this respect), plant overheads and operating expenses allocated to California in such prior years were also overstated. The effect of such unacceptable accounting and over-allocation of costs to California utility operations, both telephone and water, in connection with this and prior rate proceedings or telephone rate reductions, is not known at this time. The need of further study of the effect of past erroneous charges on current plant and depreciation expenses is indicated here again.

Other Adjustments

In addition to the numerous staff adjustments to recorded transactions and entries of specific amounts explained in some detail, and reflected in various tabulations and tables herein, the staff wholly excluded the total recorded costs in the following categories:

a.	Officer's salary, President and Chairman	$ 78,250
b.	Officer's expense, President and Chairman	19,969
c.	Pension Fund payments to trust fund	279,000
d.	Payroll taxes applicable to excluded salary	2,720

Staff exclusion adjustments were based upon lack of adequate information and data from which could be drawn conclusions that:

a. The expenditures and charges represented valid costs capable of analysis, verification and determination of their reasonableness for rate-making purposes and in some cases, it was not possible to obtain verification as to whether or not they are properly accounted for as charges to utility operations.

b. The expenditures and charges were reasonably identified with and/or applicable to utility operations in California and to water system operations which are the subject of the current proceedings.

This record indicates that the management of the parent company, if it wished, could have provided or given the staff timely access to the necessary information and data, thus avoiding burdening this record with unnecessary detail and hence prolonging these proceedings. The disposition of these issues is considered elsewhere.

Summary Staff Stamford Mutual Service Adjustments

Adjustments resulting from the staff audit in Stamford are summarized as follows:

Stamford Mutual Service

Item	1966 Recorded	1967 Recorded	Staff Adjustment	1967 Adjusted
Total Expenses	$903,067	$972,407	$(588,506)	$383,901
Charged to Capital	250,954	488,246	(295,489)	192,757
Accounting Billed Directly	56,439	67,189	(67,189)	-
Net Expense	$595,674	$416,972	$(225,828)	$191,144
Allocation to California				
Percent	34.39%	34.76%	34.76%	34.76%
Amount	$204,852	$144,939	$ 78,497	$ 66,442

(Red Figure)

We note that Citizens Delaware made numerous accounting adjustments only at a time, 1967, when its records would be audited in conjunction with these rate proceedings.

Redding Mutual Service Account

The salary and expense of the administrative officers at Redding and Sacramento are included in the Redding Mutual Service Account, with the exception of expenses relating to a new office building in Sacramento. No substantial issues were raised regarding this account. Differences between estimates are adequately explained in the staff Exhibit No. 14. We find the staff estimate reasonable.

Officers' Salary and Expenses

A staff witness testified that Citizens Delaware pays its President and Chairman of the Board a salary of $79,500 [8/] and provides him with an expense allowance of approximately $20,000, a total compensation of approximately $100,000. Since the president appeared to be a man of many activities associated with a number of corporations and utilities, a staff investigator requested information and data needed to make a judgment on the amount and value of time which should be reasonably allocated to California operations for rate-making purposes. The response was a statement of generalities with few, if any, specific facts other than the salary received from another holding company with a number of subsidiaries. Since the information furnished was not helpful to the staff in discharging its function of evaluating the reasonableness of applicants' rate increase requests, since it is the burden of applicants to clearly, convincingly and persuasively demonstrate the reasonableness of their requests, and since applicants have not only the resources but the talent to comply with the staff request, the staff witnesses

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8/ Applicant's answer to cross-interrogatory No. 7, dated January 10, 1969, indicates that $84,167 was included in the Stamford mutual service account in 1968 as the president's salary.

correctly eliminated the prorated amounts of officer salary and expense being questioned.

A witness for applicant in general terms described the functions of the president of Citizens Delaware in more than 15 pages of transcript. Again no specific information was presented which would permit an evaluation of the amount and value of this officer's time to California operations.

In response to a staff cross-interrogatory, Exhibit No. 61, applicant presented testimony that between $36,000 and $40,000 would be required as salary compensation for the president of Citizens California if it were unaffiliated and unassociated with Citizens Delaware, if it operated the same facilities it now had in California, and if it was a wholly owned and operated California utility. Applicant also testified by the cross-interrogatory that the following amounts of the president's salary would be allocable to both capital and expense charges to the operations account being considered:

Guerneville Water District	$657
Montara Water District	253
Niles Water District	870
Inverness Water Company	126
North Los Altos Water Company	452

A staff witness made an independent study of the amounts which could be added to the staff results for executive salaries if the above assumptions of an independent California utility were adopted. Based on the relationship of the executive payroll as a percentage of operation and maintenance expenses by the size of selected California water utilities, the staff witness concluded that the following amount could be added to the staff results:

Guerneville Water District	$1,700
Montara Water District	500
Niles Water District	2,000
Inverness Water Company	300
North Los Altos Water Company	1,100

The staff study indicates the maximum which reasonably could be allowed for this item but it does not purport to be the amount of expense incurred for these California operations.

The testimony adduced in this proceeding by applicants as to the reasonableness of the amounts allocated for presidential salary is neither clear, convincing nor persuasive. We find that the staff included an estimated allowance for the presidential expense, however, we shall include in the adopted results an arbitrary allowance approximating one-half of the allocated reported presidential salary and expense for this item, since applicants have not established its reasonableness. While the staff has frequently made operating estimates which we have accepted as alternates for unconvincing utility showings, this is one of the few instances a utility with adequate resources has directly and indirectly refused to supply requested information and data.

We find $19,400 to be a reasonable amount to allow for administration and general and miscellaneous expenses in this proceeding.

Depreciation Expense

The differences between the staff and applicant's estimates of depreciation expense are small and result from the staff adjustment for applicant's plant accounting errors of charging some maintenance items to plant accounts and not retiring from the plant accounts items no longer in service. Such practices serve to unjustifiably inflate the depreciation expense which customers are called upon to pay in the form of rates. We find the staff estimate of depreciation expense reasonable.

Taxes Other Than On Income

The staff and applicant used similar methods of estimating ad valorem taxes. The applicant's estimate is higher by $814 because it used beginning-of-calendar-year plant, in contrast with the staff use of adjusted weighted-average plant, and a greater increase in the composite effective rate from the actual rates in 1967 to the estimated rates in 1968. The utility based its estimate of the trend of tax rates on an eight-year period while the staff considered a number of different periods. We find the staff's estimate reasonable.

Taxes on Income, 10% Surcharge
and Investment Tax Credit

Both the staff and the applicant computed federal income taxes by using the combined rate of 48 percent and deducting the portion of the total company surtax credit allocated by the company to the districts. Subsequent to filing of the amended application, a 10 percent surcharge to federal income taxes was imposed effective for the full year 1968. Since this tax was to expire June 30, 1969, this tax was not included in the summary of earnings. Since a 5 percent surcharge to federal income taxes will be in effect for the first six months of 1970, we will include a 1.1 percent tariff surcharge in the authorized rates. Reflecting current income tax regulations, we have excluded the investment tax credit in the calculation of income taxes.

Taxes on Income
Involuntary Conversions

Involuntary conversions occur when a utility sells properties in the face of threat and imminence of condemnation by a public agency. The United States Internal Revenue Code permits an election to be made by a utility facing such a situation whereby the utility may escape immediate recognition of the taxable capital gains on such sales. The utility may, instead of immediately paying capital tax on such gains, spread the tax consequences over the service life of substituted depreciable replacement property purchased with the proceeds of the sale. The tax basis of the replacement property is its cost less the amount of the gain not recognized. This adjusted basis results in lower future annual depreciation charges allowable for tax purposes, with consequent increases in the amount of future income tax expense based on ordinary income at the corporate rate. The effect, in essence, is that instead of applicant's paying a capital gain tax of 25 percent at the time of sale, applicant's future customers, for an indeterminate period in the future, would be called upon, through rates, to provide for applicant's corporate income tax on the difference in depreciation charges. In such situations, when the utility's capital gains become part of earned surplus or surplus reserves and the higher income taxes part of operating expenses, the tax burden is shifted from the owners of the property to the utility's customers unless rate-making adjustments are made. The Commission has previously found it reasonable to make such adjustments.[9/]

Four of the five districts and affiliates of Citizens California in the current proceedings are affected by such a tax burden shift. Staff Exhibit No. 54 shows the amount of revenue burden on customers for added state and federal income taxes, resulting from plant being financed by money obtained from

9/ Decision No. 63530, dated April 5, 1962 (59 Cal. P.U.C. 525, 526-528.)

involuntary conversions on which the capital gains taxes were not paid, in the Guerneville district to be $10,400. We find it reasonable to increase depreciation deduction used in the income tax computation for the Guerneville district by $9,750.

Rate Base

The staff rate base for the test year is $26,098 less than that of the applicant. Applicant's plant accounting errors of charging some maintenance items to plant accounts and not retiring from plant accounts items no longer in service significantly inflates applicant's rate base. Such practices serve to increase the amount of net revenue required without justification.

The applicant deducted from plant included in rate base the balance of unrefunded advances for construction reduced by the accrued depreciation on the plant constructed with such advances and also claimed said depreciation as an expense. This procedure increased applicant's rate base $10,645 above the staff procedure of deducting from plant all unrefunded advances for construction. Applicant argued the long standing staff procedure caused confiscation of a portion of plant equivalent to the amount of depreciation in plant financed by unrefunded customer advances since the accrued amount of this depreciation is deducted from plant as a part of the depreciation reserve in arriving at a depreciated rate base.

Applicant would eliminate this supposed double deduction by reducing the amount of advances for construction by the amount of the accrued depreciation on the advance-financed plant. Applicant errs in assuming confiscation. Applicant ignores the fact that the owners of applicant made no investment in the plant financed by advances for construction, except for refunds, and have no right to expect to either earn on plant financed by others or to earn on plant provided by the reinvestment of amounts allowed for the depreciation of said plant. Depreciation on plant financed by unrefunded advances for construction is allowed to help provide for refunding and thus insuring investor capital against dissipation. We find the staff method fair and reasonable.

The Commission normally includes in the rate base an allowance for working cash in order that investors may be compensated for monies which they have supplied over and above the investment in tangible and intangible property, to enable the utility to pay its bills pending receipt of revenues. Applicant included $8,839 in its rate base as an allowance for working cash. The staff, following past practice for small water utilities, did not include any allowance for working cash since the rate structure and billing procedure provided the district in the first two months of 1967 with $92,294, or about 64% of the total gross revenue received in 1967. This district is unique in that its rate schedule for metered service provides for the payment of service charges in advance in bimonthly or annual amounts. After considering the lead in the receipt of revenues over the lag in payment of expenses, and the allocation of a reasonable amount of the current assets of applicant to the operations of this district, we are of the opinion that the prepayment by customers of revenues generates funds available and used by applicant to provide utility service.[10] We find it reasonable to reduce the staff rate base by not less than $31,000 as the average amount of working cash advanced by customers, which applicant was provided in excess of the needs for the payment

10/ See Decision No. 67369, dated June 11, 1964, Case No. 7409.

of operating expenses in advance of the receipt of revenues and for other necessary current assets, such as working funds, special deposits, bank balances and prepayments, and which applicant could use for other corporate purposes.

We find the reasonable weighted average depreciated rate base to be $695,800.

Rate of Return

Two witnesses offered testimony in the Montara proceeding, Application No. 49023, on the proper rate of return for the Guerneville, Montara and Niles districts of applicant and for Inverness Water Company and North Los Altos Water Company.

A witness for applicants concluded that a reasonable rate of return would be in the range of 8.5 percent to 10 percent, and a staff witness recommended a range in the rate of return of 6.9 percent to 7.2 percent. Applicants' witness stated that he believed an allowance for attrition in the rate of return should be made if applicants are to earn an adequate rate of return in the future. Without having made specific study for each of the properties, he expected the average attrition to be approximately 0.5 percent per year.

Applicants' witness presented comparative cost data for debt capital and utilized the alternate investment theory to determine the cost of the equity capital of Citizens California.[11/]

Based on data encompassing two decades of the increases in the Federal Reserve Bank discount rate, yields on long-term bonds of the United States, bank prime interest rate and Moody's Average Yield on A Rate Public Utility Bonds, together with the cost and yield of recent utility debt offerings and changes subsequent to

11/ Exhibit 18, Application No. 49023.

his study, applicants' witness concluded that the current cost of long-term debt capital to Citizens Delaware would be about 7%. The current cost of short-term capital was reputed to be 6%. However, the cost of senior capital would be higher for any of the operating properties if they were considered independently of the consolidated system.

Applicants' witness utilized the alternate investment theory to determine the current range of the equity earnings requirement for Citizens Delaware and its California subsidiaries. Applicants used Moody's 125 industrials, Class A & B electric utilities, Moody's 24 utilities, American Telephone and Telegraph Company (consolidated), and 10 water utilities as samples for analysis. He delineated for each of these groups, except the Class A & B electric utilities, the annual growth from 1955 to 1967 in dividend yields, earnings-price ratios and investor average annual return, including market appreciation and cumulative dividends.12/ Data for these groups on the ratio of market price to book value and the position of equity was also presented.

The witness concluded that the current range in equity earnings requirement for the various California operating divisions and affiliates would be from 10.5 percent to 12.5 percent, the lower range being more appropriate for the consolidated system and the higher range being more appropriate for the various operating divisions and affiliates if they were considered independently.

The staff witness presented for consideration by the Commission a report on the cost of money and rate of return.13/

12/ Exhibit No. 18, Application No. 49023.
13/ Exhibit No. 21, Application No. 49023.

The exhibit contained financial information on Citizens Delaware, a comparison of earnings on total capital and on common stock equity of combination utilities and of Class A California utilities, a summary of rates of return recently authorized by the Commission on water utilities and a tabulation of rates of return required to recover the embedded cost of debt to Citizens Delaware and to produce various earnings on common equity. Upon request, applicants also placed in evidence data on the growth and performance of the Series A and B common stocks of Citizens Delaware.[14/]

The staff witness stated that a comparison of the earnings of other Class A California water companies is a useful starting point for the recommendation of a reasonable rate of return for applicants, after rejecting the use of earnings of Citizens Delaware and Citizens California as guides. Stating that "a rate of return recommendation must of necessity be the result of informed judgment after a careful consideration of all relevant elements and factors pertaining to the utility in question", the staff witness enumerated the following elements and factors he considered in arriving at his recommended rates of return:

1. Earnings record of Citizens California and of other Class A California water utilities.

2. Citizens Delaware had acquired three additional California water utilities in 1967.

3. The high common equity ratios of Citizens Delaware and Citizens California.

4. The very limited need of Citizens Delaware for external financing due mainly to its sale of properties, its steadily

14/ Applicants objected that the data is irrelevant and immaterial and that it is not proper to consider "one's self" in determining cost of equity.

increasing earnings and its unique Class A shares of common stock which receive stock dividends only.

5. The control which the parent company exercises over the operation of applicant companies.

6. The trend toward higher debt cost.

7. The growth potential in areas in which the company operates.

8. The essentiality of the product to the public.

9. The relative size of the individual water operations.

The staff witness considered it proper to use the capital ratios and debt cost of Citizens Delaware. He calculated the effective interest on long-term debt to be 4.30 percent. This is lower than the 4.47 percent derived by applicant primarily because the staff witness included the effects of 2 percent R.E.A. 35-year notes applying to a telephone subsidiary and the first mortgage notes of a recently purchased subsidiary.

Both witnesses used 6.50 percent as the current cost of short-term debt.

In arriving at the rate of return to be allowed applicant, we find that the reasonable effective interest on long-term debt is 4.30 percent and the current cost of short-term debt is 6.50 percent. Applicants are financed by their parent by internally generated funds without recourse to the financial marketplace. A substantial portion of the profits of Citizens Delaware in California is derived from purchase of small water properties and their subsequent sale to public agencies. All capital gains from this type of buying and selling of utility property have accrued to the benefit of the investors and were not substantially reflected in the earning requirements of applicants by either witness. The alternate investment theory is not applicable in rate of return determinations unless the real earnings of utility and associated nonutility operations are fully disclosed.

Giving weight to the value of service rendered, delays in service improvements, overstatement of expenses and plant accounts, and the failure of applicants to provide adequate service to the customers, we find that the reasonable range of earnings on equity is 6.0 to 6.75 percent, or a rate of return on rate base from 5.53 to 6.0 percent. We will adopt specific rates of return for various districts and affiliates of applicant appropriate for the quality of service rendered. Under present operating conditions for the Guerneville district we find a rate of return of 5.53 percent on rate base to be reasonable. When applicant has upgraded service to its customers in this district and demonstrated it to the satisfaction of this Commission, a 7.2 percent rate of return on rate base would be reasonable.

Service

Exhibit No. 52 summarizes the service complaints of 16 customers and indicates the results of the investigation by the utility as ordered by the examiner. The comments of one customer on the report on his service complaints, included in this record as Exhibit No. 58, indicates substantial variation in factual interpretation between applicant and the customer. Since neither of the exhibits was tested by cross-examination we will not attempt to resolve the conflict therein presented.

Applicant's report of its service investigation can be given little weight. For example, the first public witness who made a service complaint, at page 52 of the transcript, objected that a charge of $8 was excessive for turning the water off and on so a faucet washer could be installed. Applicant did not report, as directed, on its standard practice and charge for such maintenance assistance to customers. The report did contain a nonresponsive comment on the purpose of the tariff provision of a $4 service establishment charge.

It appears from public testimony and admissions in Exhibit No. 52 that the quality of service in the Guerneville district continues, as it has for many years, to be a source of dissatisfaction to many customers and substantially below Commission standards, although it does not appear to be a menace to health. Promises and studies of service improvements once more appear to be made to get applicant over the obstacle of another rate increase proceeding. This record does not permit orders of sufficient detail on service deficiencies to insure compliance by a reluctant utility. However, the Commission will give great weight to the continued service deficiencies when weighing the value of service in its determination of a fair and reasonable rate of return, anticipating that applicant may be motivated to make efficient and timely service improvements. Promises of improvement are not adequate or acceptable in lieu of satisfactory service performance.

Customers complained of discoloration, sediment, chlorine taste, contamination, low pressure, outages and other miscellaneous items. In preparation for this rate proceeding applicant engaged a consulting engineer to prepare a long-range plan of service improvements. The consultant has proposed a 10-year plant improvement program estimated to cost $446,000 at 1968 cost levels (Exhibit 21). If applicant were to undertake such improvement program, it is likely that many of the service deficiencies would be alleviated. Even if only the higher priority items of construction in the program were completed within the next year or two, a substantial upgrading of service should result. The order which follows will provide additional revenues should applicant complete within a two-year period the items numbered 1 through 10[15/] in Exhibit 21. The additional annual revenues will approximate $48,000 based upon the 7.2 percent rate of return previously found reasonable and the estimated additional ad valorem taxes and depreciation on plant investment associated with the improvements.

Accounting

In 1962, during the hearings on the rate request of the Inverness Water Company, Application No. 44221, as a result of an audit conducted at the Stamford office, the staff recommended that all identifiable direct charges be eliminated from the mutual service account and that the remainder in the mutual service account be allocated by the four-factor method. The staff also recommended that the percentage addition to California construction for Stamford office construction overheads be 3-1/2 percent and for Redding office construction overheads be 1-1/2 percent. Decision No. 65404, dated May 14, 1963, in this matter adopted operating results which included the effect of the staff recommendation, as also did Decision No. 65425, dated May 21, 1963, in Application No. 44209, for increased rates in the Guerneville district.

Decision No. 66366, dated November 26, 1963, in Application No. 45176, of the Parkway Water Co. for increased rates, specifically noted that applicant had failed twice in the proceeding to produce any convincing evidence that the general principles guiding the staff should not be followed.

Decision No. 68443, dated January 12, 1965, in Application No. 45625, of the North Los Altos Water Company for increased rates,

15/ See page 52a.

A.48905 NB *

15/

Item No.	Description	Priority Level	Estimated Cost Current Cost Level
1	Scheduled program for improved circulation and valving of system, 10-year program	ea.yr.	$22,500
2	Neely Road main replacement	1	25,000
3	Circulation line, S.S.Guerneville Bridge	1	2,000
4	5,000 gal.Hidden Valley tank replacement	1	4,000
5	10,000 Gal.Russer Tank replacement (Replaces 50,000 tank)	1	6,000
6	Monte Cristo main replacement	1	10,000
7	Canyon No.2 Spring line replacement	2	6,000
8	10,000 gal.Breen Tank replacement	2	6,000
9	20,000 gal.Northwood Tank replacement (existing tank 10,000 gal.)	2	8,000
10	Russian River Heights main replacement	3	12,000

again reviewed the showings on this controversy. The decision advised applicant that its showing did not contain factual information on which the Commission could judge the cost of services Stamford rendered California operations and that applicant had failed to persuade the Commission that substantial amounts of Stamford expenses cannot be identified and/or directly assigned to specific operations.

Decision No. 68443 recounts that a proportional part of Stamford accounting salary and associated expenses are allocated as direct charges to those non-California operations for which the Stamford office performs general accounting service. Applicant's construction overheads, accumulated to remove from Stamford office expenses those executive, engineering and accounting items chargeable to construction, are based on a 1958 study. The staff in the current proceeding noted that no study since the staff recommendation in 1962 has been made to ascertain if the 3-1/2 percent rate for Stamford construction overheads is still appropriate.

We find it reasonable that beginning with year 1970, the only charges for service performed by the Stamford office which will be considered by this Commission for rate determinations will be direct charges for identified specific services that have sufficient documentary support on file in California to permit verification of the reasonableness of the charges, including names of individuals, amounts of individual time, time charge rates, overheads applied, and basis of overheads. No overheads for construction or expense items will be considered that are derived from clearing accounts which include items which can be directly identified and charged. All overhead rates shall be based on current studies of operations which are reviewed for reasonableness periodically at intervals not exceeding three years. Data justifying all overhead rate determinations shall be kept currently on file in California.

It is greatly desired that applicants demonstrate convincingly the reasonableness and validity of all accounting entries. This would be conducive to mutual respect and would implement effective regulation, so that the needs of investors and the interest of customers may both be assured by the availability of reasonable service at reasonable rates.

The staff during this proceeding recommended that applicants should not capitalize maintenance expenses, should retire property from the plant accounts when it becomes no longer used and useful in serving the public, should adjust advances for construction to the actual cost of a construction project when the actual costs become known, and that the Uniform System of Accounts should be applied correctly. We find the staff recommendations reasonable. Without having obtained authorization from the Commission for an accounting deviation, applicants are reminded that the prescribed Uniform System of Accounts must be followed, as promulgated, and that compliance is insured by the force of law.

Findings and Conclusions

The Commission finds that:

1. Applicant needs revenues in addition to those produced by rates in effect on and before September 10, 1969.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 reasonably indicate the probable results of applicant's operations for the near future.

3. An average rate of return of 5.53 percent on applicant's rate base for the Guerneville district is reasonable. It is

estimated that such rate of return will provide a return of 6.0 percent on common equity allocated to the Guerneville district.

4. An average rate of return of 7.2 percent on applicant's rate base for the Guerneville district is reasonable if applicant completes within two years the first 10 plant improvement items of Exhibit 21. It is estimated that such rate of return will provide a return of 8.68 percent on common equity allocated to the Guerneville district.

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

6. Applicant has not conformed its accounts to the Commission's Uniform System of Accounts for Water Utilities (Class A, Class B and Class C), effective January 1, 1955.

7. Applicant has not conformed to its main extension rule by adjusting estimated advances for construction to actual costs.

The Commission concludes that the application should be granted in part until applicant's service has been demonstrated to conform to the standards of General Order No. 103, or authorization has been obtained to deviate from said standards and applicant has complied with all provisions of the following order; and that applicant should be required to conform to prescribed accounting and to its main extension rules. A customer receiving 400 cubic feet per month will receive under the rates herein authorized an average bimonthly bill of $8.83, an increase of 11-1/2 percent.

O R D E R

IT IS ORDERED that:

1. Within thirty days after the effective date of this order, applicant Citizens Utilities Company of California may file for its Guerneville district the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. In the event applicant undertakes to install plant improvement items numbered 1 through 10 of Exhibit 21, within fifteen days after the end of each month, until completion of such construction, applicant shall file a progress report showing the cumulative net dollar amounts expended for each numbered construction item. Each listed item in the progress reports shall include a brief description of the size, type and quantity of materials used as well as its location.

3. Upon completing the requirement of Ordering Paragraph 2 before June 30, 1972, and upon receiving further authorization of this Commission by supplemental order herein, applicant Citizens Utilities Company of California, may file for its Guerneville district the revised rate schedule attached to this order as Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall apply only to service rendered on and after the effective date thereof.

4. Citizens Utilities Company of California shall submit in writing to the Commission on or before December 31, 1970, proposed journal entries which remove from applicant's plant accounts all

expenditures which should have been charged to the expense accounts, showing the disposition to other accounts of the amounts thereby credited to plant.

5. Citizens Utilities Company of California shall submit in writing to the Commission on or before December 31, 1970, proposed journal entries which remove from the plant accounts all property no longer used and useful in rendering public utility water service, showing the disposition to other accounts of the amounts thereby credited to plant.

6. After December 31, 1969, Citizens Utilities Company of California shall use the reserve method of accounting for uncollectibles and shall record the actual write-off and collections in the reserve account. The estimated provision for uncollectibles shall be charged to Expense Account No. 775, Uncollectible Accounts and credited to Account No. 254, Reserve for Uncollectible Accounts based on applicant's experience.

7. On or before June 30, 1970, Citizens Utilities Company of California shall submit in writing to the Commission proposed journal entries which reflect the adjustment of all advances for construction for main extensions which have been collected based upon estimated costs, to the actual costs, including any overheads,

of the completed main extensions. On or before June 30, 1970, applicant shall refund to or obtain from all persons making an initial advance for construction the difference between such advance and the actual cost of construction.

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

Dated at San Francisco, California, this 24th day of MARCH, 1970.

William Symons, Jr.
President

Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

A. 48905 ds/HW

Schedule No. GU-1A

Guerneville Tariff Area

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Guerneville, Rio Nido, East Guernewood, Guernewood Park, Northwood, Monte Rio, Vacation Beach, River Meadows and vicinity, Sonoma County.

RATES

	Per Meter Per Month	
Quantity Rate:		
All Quantities, per 100 cu.ft.	$ 0.27	
Annual Service Charge:	Per Meter Per Year	
For 5/8 x 3/4-inch meter	$ 40.00	(I)
For 3/4-inch meter	54.00	
For 1-inch meter	84.00	
For 1½-inch meter	144.00	
For 2-inch meter	228.00	
For 3-inch meter	462.00	
For 4-inch meter	672.00	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge computed at the Quantity Rate, for water used during the billing period. (T)

(T)
(D)

Service Establishment Charge:

For each establishment or reestablishment of water service .... $ 4.00

(Continued)

A.48905 HW

Schedule No. GU-1A

Guerneville Tariff Area

ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 consecutive months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. (N)

2. The opening bill for general metered service shall be the established annual service charge. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

(D)

3. The service establishment charge provided for herein is in addition to the charges calculated in accordance with this schedule and will be made each time an account is opened or reopened for a customer at the time water service is to be established, restored after discontinuance at customer's request or transferred to a different customer which requires a meter reading. (T)

4. Until the 5 percent surcharge to Federal Income Taxes is removed all bills computed under the above tariff will be increased by 1.1 percent. (N)

A. 48905 .JO/NB

Schedule No. GU-1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Guerneville, Rio Nido, East Guernewood, Guernewood Park, Northwood, Monte Rio, Vacation Beach, River Meadows and Vicinity, Sonoma County.

RATES

	Per Meter Per Month	
Quantity Rate:		
Per 100 cu.ft.	$ 0.27	(I)
	Per Meter Per Year	
Annual Service Charge:		
For 5/8 x 3/4-inch meter	$ 56.64	
For 3/4-inch meter	75.00	
For 1-inch meter	114.00	
For 1½-inch meter	204.00	
For 2-inch meter	324.00	
For 3-inch meter	640.00	
For 4-inch meter	930.00	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge computed at the Quantity Rate, for water used during the billing period.

Service Establishment Charge:

For each establishment or reestablishment of water service .... $ 4.00

(Continued)

Schedule No. GU-1A

ANNUAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 consecutive months, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except that meters may be read and quantity charges billed during the winter season at intervals greater than three months.

2. The opening bill for metered service shall be the established annual service charge. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

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