

ORIGINAL

Decision No. 77210

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 Niles-Decoto area in)
 Alameda County.)

Application No. 48906
 (Filed October 28, 1966;
 Amended April 23, 1968)

Weyman I. Lundquist and John H. Cutler, for
 Citizens Utilities Company of California,
 applicant.
Jack Heer, for Niles Residents, protestants.
Harold J. McCarthy, Counsel, John E. Johnson,
 and A. L. Gielegem, for the Commission staff.

O P I N I O N

Evidence on this application was heard by Examiner Coffey on October 14 and 15 in Union City; on October 16 and 17 in the Niles District of Fremont; on October 23 and 24 in Los Altos; and on November 13, 19 and 26 in San Francisco, all dates in 1968. The matter was called for hearing and adjourned without the receipt of substantial evidence on November 4, 12 and 14; December 11 and 23, 1968; January 8, 21, 22, 30 and 31; and March 17 and 21, 1969, while issues common to this proceeding and Application No. 48905 of Citizens Utilities Company of California (Citizens California) Guerneville District were being heard in the latter proceeding. Hearings on December 23, 1968 and January 8 and 21, 1969, were called and adjourned without the receipt of any evidence at applicant's request. This application was submitted on April 3, 1969, upon the

receipt of the reporter's transcript.^{1/} Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

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 of Delaware (Citizens Delaware) to permit access to and review by the Commission staff of certain of the books and records of applicant, applicant's affiliates, and applicant's parent corporation, Citizens Delaware. By Decision No. 73701, dated February 6, 1968, the Commission after approving of the staff-requested information, found that applicant and its affiliates had obstructed and delayed this proceeding. A ruling on the staff's motion to dismiss was reserved pending amendment by applicant of its application to include a more recent test period and compliance with the order to supply the staff-requested material and access to records. On April 23, 1968, applicant filed its amended application and subsequently the staff was afforded an opportunity to continue its investigation in nominal compliance with the order.

On March 21, 1969, applicant filed a petition requesting a proposed report. The request has been granted by the Commission.

^{1/} Concurrently with this application, applicant requested increased water rates for service in its Cuemerville District, Application No. 48905, 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 proceeding.

On August 21, 1969, applicant filed a petition for interim rate relief pending conclusion of this proceeding. Decision No. 76170, dated September 10, 1969, partially granted the request 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 percent.

On February 10, 1970, applicant filed a motion that applicant's proposed rates be filed, subject to refund. In addition, applicant requests rates affording a current return of not less than 10-3/4 percent on rate base and that the Commission add to its decision provisions for additional revenue to take account of or compensate for:

- (a) Increased operating costs in the last 18 months;
- (b) Deprivation of return for the time that these cases have been pending; and
- (c) Provision for attrition of rate of return to take cognizance of the probability of future cost increases.

Rates ordered herein make moot the motion for interim rates in this application. It is not appropriate to consider ex parte the requests for revenue in addition to that of the proposed rates. The motion will be denied.

The issues which are common to applicant and its affiliates have been reviewed in Decision No. 76996, dated March 24, 1970, Application No. 48905. Consistent findings of fact as may be required in this proceeding on common issues will be made herein without repeating the discussion set forth in said decision which is hereby made a part of this decision.

Applicant presented 9 exhibits and testimony by three witnesses in support of its request for authority to increase its rates and charges for water service in its Niles District, Alameda County. Three witnesses from the Commission presented the results of their independent study and investigation of applicant's operations.^{2/} Approximately half of the hearing time was devoted to service problem presentation by ten public witnesses.^{3/}

Corporate Operations and Service Area

The operations of applicant and its parent corporation, Citizens Delaware, will not be repeated here since they are summarized in the decision on Application No. 48905.

As of December 31, 1968, applicant served about 3,210 metered customers in its Niles Water District.^{4/} The service area of this district includes the communities of Niles and Decoto in the cities of Fremont and Union City, respectively, in Alameda County. Private fire protection and public fire hydrant service is also provided at flat rates. Water is obtained from ten wells which range in depth from 100 feet to 523 feet and have capacities ranging from 280 to 1,000 gallons per minute. Monthly sales in 1968 ranged from 32,280 hundred cubic feet (ccf) in February to 83,779 ccf in August. At the end of 1968 there were about 255,417 feet of mains, ranging in diameter from under 2 to 16 inches.

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- ^{2/} 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 on rate of return in Application No. 49023 and on other common issues in Application No. 48905.
- ^{3/} The number of public witnesses is not indicative of the public protest on service due to indication by the examiner that cumulative and repetitive evidence was not desired and would not add weight to the evidence.
- ^{4/} Since applicant incorrectly reports to the Commission the number of bills rendered rather than active service connections, actual customers probably total about 3,100.

Storage, totalling 300,000 gallons, is provided by two tanks, one located near Niles and the other adjacent to the Decoto service area. The number of utility customers since the last rate increase application has increased on the average about 95 per year, with some fluctuations in the amounts of annual increase.

Applicant's Requested Rate Proposal

The following tabulation shows the present and proposed general metered service rates, together with the percentage increases:

Present and Proposed Meter Rates

<u>Item</u>	<u>Per Meter Per Month</u>		<u>Increase Percent</u>
	<u>Present</u>	<u>Proposed</u>	
Minimum Charge:			
For 5/8 x 3/4-inch meter	\$ 1.90	\$ 3.95	107.9%
For 3/4-inch meter	3.00	5.25	108.3
For 1-inch meter	4.50	9.10	102.2
For 1 1/2-inch meter	7.50	15.50	106.7
For 2-inch meter	12.50	25.50	104.0
For 3-inch meter	20.00	41.50	107.5
For 4-inch meter	30.00	62.00	106.7
Quantity Rates:			
First 600 cu.ft. or less	1.90	3.95	107.9
Next 1,400 cu.ft., per 100 cu.ft.	.24	.50	108.3
Next 3,000 cu.ft., per 100 cu.ft.	.17	.35	105.9
Over 5,000 cu.ft., per 100 cu.ft.	.14	.28	100.0

An average customer with a 5/8 x 3/4-inch meter, using 1,600 cubic feet per month is presently billed \$3.60 bi-monthly and would be charged \$17.90 bi-monthly under proposed rates, an increase of 108 percent.

Results of Operation

Estimates of the results of operation made by applicant and 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 ^a		Proposed Rates		Adopted
	Applicant	Staff	Applicant	Staff	Results
Operating Revenues	\$163,212	\$168,600	\$325,930	\$336,500	\$276,000
<u>Operating Expenses</u>					
Oper. & Maint. Exps.	79,980	74,400	80,468	74,920	76,590
Admin. & Gen. & Misc. Exps.	30,384	25,400	30,384	25,400	22,730
Depreciation Expense	32,859	32,710	32,859	32,710	32,710
Taxes Other Than on Income	41,428	39,120	41,428	39,120	39,440
Taxes Based on Income (Excl. 10% Surcharge)	-b	(11,250) ^b	60,974 ^b	74,950 ^b	39,670 ^c
Total Operating Exps.	184,651	160,380	246,113	247,100	211,140
Net Revenue	(21,439)	8,220	79,817	89,400	64,860
Depreciated Rate Base	964,420	893,000	964,420	893,000	900,900
Rate of Return	(2.2)%	0.9%	8.3%	10.0%	7.2%

(Negative)

- a. Rates effective prior to September 10, 1969.
- b. Not adjusted for involuntary conversions effects, inclusive ITC.
- c. Exclusive of ITC, adjusted for involuntary conversions effects.

Revenues

The major difference between the staff's and the applicant's estimates results from differences in the estimates of water use per commercial customer. The staff's 1968 estimate of 191.9 ccf per customer per year was developed by graphically correlating water use with rainfall, temperature and time. The company estimate of 183.2 ccf per customer per year for 1968 is developed from a least square trend of consumption (ccf) versus rainfall only, for a

seven-year period, and is lower than recorded sales per customer for the past four years. We find the staff method of estimating revenues reasonable. It is noted that interim rates authorized by Decision No. 76170 are estimated to produce \$216,270. The operating revenue requirement of \$276,000 indicated by the adopted results is \$59,730 more than the interim rates.

Operating and Maintenance Expenses

Applicant's estimate of operating and maintenance expenses exceeds that of the staff by \$5,580.

The staff eliminated the wages of a part-time clerk amounting to \$1,591 since customer billings had been transferred recently to Redding for electronic data processing. It appears that reasonable other services for customers require the employment of this clerk, and the amount of her salary, \$1,591, should be allowed for rate-making purposes.

The staff distributed over five years the unusual repair expense of a well amounting to \$2,916. Applicant claims this record demonstrates that similar "unusual" expenses occurred in 1965, 1966 and 1967. Since the staff used the average of three years for most items except the well, we find the staff adjustment for the well repair expense reasonable.

Applicant's estimate of purchased power exceeded that of the staff by \$1,738. The staff developed units of power required to pump water and of unit power cost based on consideration of overall pumping power costs during the period 1964-1967. Applicant maintains that the staff used 1966 average power costs for 1967 and 1968 estimates despite an upward trend in average power costs and that the staff normalized 1967 and 1968 water consumption is in excess

of 1967 actual consumption. The staff did not use 1967 experience since "unaccounted for" water was higher than recent average losses. The staff used power costs corresponding to average losses. We find the staff estimate reasonable.

Applicant's estimate of telephone expense exceeds that of the staff by \$200. The staff used a four-year average of recorded telephone expenses while applicant's estimate was based upon the current method of operation and recorded expenses of the past two years. We find reasonable applicant's estimate of \$1,500 for telephone expenses.

We find reasonable operating and maintenance expenses in the test year to be \$76,490 at adopted results, which is the staff estimate adjusted as indicated above.

Administrative and General and Miscellaneous Expenses

The issues of concern here are substantially the same as those discussed in Decision No. 76996, on applicant's request for authorization of increased water rates in its Guerneville District. The discussion of differences of the estimates of applicant and staff will not be repeated here other than to indicate the amounts found reasonable for this proceeding.

The staff estimate of Employees' Pension and Benefits expense is \$5,760, and that of applicant is \$7,184. We find \$4,612 to be reasonable for this expense in this proceeding.

Applicant estimated the Regulatory Commission Expenses to be \$2,842 and the staff estimated them to be \$690. We find reasonable the staff estimate.

Applicant estimated Mutual Service Charges to be \$15,448 and the staff estimated them to be \$11,900 plus \$2,000, for

executive salaries and expenses. We find \$12,380 to be reasonable for this expense in this proceeding.

In addition to the foregoing expense items, applicant separately estimated that it would incur over an unstated period \$5,000 of expenses in connection with a condemnation attempt, above and beyond expenses which would be incurred if such condemnation should be successful. We will not include in the adopted results an allowance for this estimate.

We find \$22,730 to be a reasonable estimate of administrative and general and miscellaneous expenses in this proceeding.

Depreciation Expense

Applicant is in error that the staff "inexplicably ignored depreciation expense on approximately \$40,000 of utility plant presently in the ground and operating in the Niles District". The staff estimated less plant installed than applicant based on historical experience in this district.

Applicant's objection that the staff should have used actual retirements in computing estimated depreciation expense rather than an average of retirements has no substantial effect on the amounts estimated. We find the staff estimate of depreciation expense reasonable.

Ad Valorem Tax

Applicant's estimate of ad valorem taxes exceeds that of the staff by \$2,193. In estimating the ad valorem tax the staff considered plant retroactively adjusted for rate base trend rather than the plant actually taxed. We find the staff estimate should be increased \$320 to reflect actual plant subject to ad valorem tax at the beginning of fiscal year 1967-1968.

Taxes Based on Income

The issues of the surcharge on income taxes, investment tax credit and involuntary conversions were all considered in Decision No. 76996. Findings will be made here in conformity with that decision.

Staff exhibit No. 17 shows that the effect of applicant not adjusting the income tax calculation for the reduction in income tax depreciation resulting from the gain on its involuntary conversions is to burden Niles District customers with an unjustified added revenue requirement of \$16,380. We find it reasonable to eliminate this unreasonable tax burden on customers by increasing the depreciation deduction used in the income tax computation for the Niles District by \$15,340.

Since a 5 percent surcharge to federal income taxes will be in effect for the first six months of 1970, we will include a 1.4 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.

We find it reasonable that depreciation deductions of \$44,340 and \$43,740, respectively, be used to compute the allowance for state and federal income taxes in the test year.

Rate Base

Applicant argued that the staff should have included a rollback adjustment for a well or system improvements in Old Niles Canyon. The argument that this rollback should be included since neither improvement will add customers or have a significant effect on revenues is questionable. The staff has included in its rate base a reasonable allowance for net additions reflecting an annual average of net additions made by applicant over the past five years. We find the staff allowance for net additions to the rate base, which includes amounts necessary to complete system improvements described hereinafter, reasonable considering applicant's record of not adequately discharging its responsibilities for public utility service.

Applicant argues that the staff working cash allowance would be increased from \$7,900 to \$15,800 if it were conformed with the staff's standard practice, "Determination of Working Cash Allowance". We agree and find the reasonable rate base to be the staff-estimated rate base plus \$7,900. We find \$900,900 to be the amount of the reasonable rate base in the test year.

Rate of Return

Witnesses for applicant and the staff offered testimony in the Montara proceeding, Application No. 49023, on the proper rate of return for Guerneville, Montara and Niles Districts of applicant and for Inverness Water Company and North Los Altos Water Company. This testimony is summarized and discussed in Decision No. 76996 for the Guerneville proceeding. Specific rates of return for each district and affiliate were to be found as appropriate for the quality of service rendered. For present conditions in the Niles District, we find the rates authorized in the interim decision to be

reasonable; however, the order which follows contains requirements to install system improvements which should improve the service complained of. We therefore find a rate of return of 7.2 percent to be reasonable.

Service

Customers of applicant protested authorization of a rate increase until such time as it provides adequate and efficient service, which they maintain has not been the case for a number of years and is not the case now. The chairman of the Niles Canyon Neighborhood Association and of the Niles Water Committee, who also represented the Union City Water Committee, testified on inadequacy of water supply, fluctuations in water pressure, water hardness, water sedimentation and foreign matter. These problems are most acute in, but not confined to, the Old Canyon Road area in Niles where for many years the system has been so inadequate that water has, at frequent intervals, not been available for gardens and fire protection, that dish and clothes washers do not satisfactorily function, showers cannot be used, and water heaters have, on occasion, been drained by the water system. Of great concern was the unavailability of fire protection from the water system which results in extreme fire hazards.

The main public witness testified that repeated requests over many years for service improvements, particularly for the vicinity of Old Canyon Road have been met by applicant with promises of service improvements, without fulfillment. Applicant advised customers at the time of filing of this application that it had no plans to alleviate the service problems in the Niles Canyon area. In their efforts to obtain better service, customers have appealed to public agencies for help, and have investigated public ownership. The view of the public is that the water system is an assemblage of

undersized and haphazardly located wells from which the water flows to customers through a maze of poorly mated, undersized, and often ancient water mains; that this water system is bolstered by a variety of pumps and pressure tanks and two undersized storage tanks; that the water system is not integrated but is a weak confederation of a dozen small water systems. The witness emphasized that the use of shallow and undersized wells leads to greater sedimentation, the introduction of foreign matter and extreme variability of water quality. This poorly integrated system results in an inflated rate base since minimal value wells are left operating when long overdue for retirement. Such results of the lack of good engineering, dictated by short-term considerations of past years increase operating and maintenance expenses and the likelihood of contamination or sedimentation. Studies made for public agencies indicate that applicant's water system was not and is not adequately designed. It almost would have to be dismantled and a new system built to meet present day requirements. Mains were installed without foresight of future demands or future growth resulting from the more intensive development of the area. The witness testified that 90% of the people are dissatisfied with applicant's water service.

The foregoing presentation was made to summarize with a minimum of witnesses the concern of the public with applicant's service. The testimony was supported by statements from the City of Union City, from the City of Fremont, and from five collaborating witnesses.

Applicant maintains that the staff report and the comments made by one customer at the hearings reflect that applicant

is presently rendering good service in its Niles District. Applicant recounts that no major complaints were expressed by customers interviewed by the staff, but neglects to point out that the staff report clearly indicates that only a few customers were interviewed by the staff and that the staff field investigations were made in January and February, that water pressure was measured at times of off-peak usage. Three new wells and an enlarged booster station are represented as having reduced unsatisfactory conditions which heretofore have existed relating to low pressure and sand problems. Applicant states that the service and pressure problems in the Old Niles Canyon Road area are to be remedied by the installation of a new booster station and larger mains, recommended by the staff and planned to be completed by applicant by December 31, 1968.^{5/}

The pressure problem in the VII Hills Subdivision is to be remedied by the completion of a booster pumping plant under construction in October, 1968.

It appears that applicant has, for many years, not improved service in the Old Niles Canyon Road area since it did not consider the improvement economically feasible.

Exhibit No. 12 shows that on March 16, 1967, applicant's vice president advised the witness for Niles residents as follows:

"As for your question about the replacement of the small mains in Old Canyon Road, I do not believe the revenue from these lines would sponsor their replacement at the present time. We have, during the past 18 months, attempted to improve service to your area through improved booster facilities, and do hope that eventually we will have an enlarged line extending the complete length of Old Canyon Road."

^{5/} A review of periodic reports filed by applicant indicates that this planned work has not been started as late as August, 1969.

It appears that here has been stated the gist of applicant's service improvement policy which almost universally results in customer dissatisfaction. Except for piecemeal and makeshift expedients, applicant refuses to substantially improve grossly inadequate service conditions where the levels of present and future revenues are in applicant's view insufficient. Applicant, as a public utility, does not have the option of discriminating between its customers by willfully giving some customers less than adequate service merely because the revenues produced by the service improvements would be insufficient to establish the project as economically profitable. The willingness of applicant to improve service to the business section of Niles and to Niles Canyon area appears to be in response to either pressures of the threat of public ownership or again to surmount the adverse service testimony of customers on this rate increase application. We find reasonable that applicant be required to effect immediate service improvements in the Old Niles Canyon Road area and in the Niles business area. Service rendered in this district is typical of the inadequate planning and engineering and of the marginal service rendered by applicant to the public. The value of the service is considered in the determination of the rate of return allowed in this proceeding.

The order which follows will require applicant to make certain plant improvements and will provide applicant additional revenues after such improvements are completed. The additional revenues will approximate \$59,700 per year over interim rates, based upon the 7.2 percent rate of return previously found reasonable, applied to the adopted rate base which includes the required plant improvements.

Accounting

Staff recommendations on applicant's accounting procedures were reviewed in Decision No. 76996. The ordering paragraphs on accounting matters contained therein apply to all of applicant's water operations and will not be repeated herein.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenue.
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. Applicant's mains in the Niles business area and in the vicinity of Old Niles Canyon Road are inadequate to provide reasonable rates of water flow and water pressure.
4. An average rate of return of 7.2 percent on applicant's rate base for the Niles District is reasonable, in conjunction with mandatory system improvements. It is estimated that such rate of return will provide a return of 8.68 percent on common equity allocated to the Niles 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.

The Commission concludes that the application should be granted to the extent set forth herein and that applicant be required to improve its water service as herein ordered.

An average customer using 1,600 cubic feet of water per month will be charged \$14.40 bi-monthly, an increase of 67 percent.

O R D E R

IT IS ORDERED that:

1. After satisfactory completion of the installation of the system improvements required by ordering paragraph No. 2, Citizens Utilities Company of California will be authorized by supplemental order to file for its Niles 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. Before December 31, 1970, Citizens Utilities Company of California shall replace the 3- and 2-inch main in Old Niles Canyon Road with approximately 2,780 feet of main not less than 8 inches in diameter between Mission Boulevard and Clarke Bridge and with 1,840 feet of main not less than 4 inches in diameter from Clarke Bridge to the end of Old Niles Canyon Road and shall replace the old mains in the Niles business area with approximately 2,700 feet of 8-inch and 1,600 feet of 6-inch main as budgeted for 1968, and included as items 7, 8 and 9 of Exhibits 9 and 10. Upon completion of such construction, applicant shall file in this proceeding an itemized description of work completed, including original costs thereof together with dollar amounts of retirements associated therewith.

3. All motions not heretofore acted upon are hereby denied.

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

Dated at San Francisco, California, this 12th day of MAY, 1970.

William J. ...
President

[Signature]

[Signature]
Commissioners

*I will file a
dissent
August*

APPENDIX A

Schedule No. ND-1

Niles-Decoto Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Niles and Decoto, and vicinity, included generally within the boundaries of the City of Fremont and Union City, respectively, Alameda County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 600 cu.ft. or less	\$3.20	(I)
Next 1,400 cu.ft., per 100 cu.ft.40	
Next 3,000 cu.ft., per 100 cu.ft.29	
Over 5,000 cu.ft., per 100 cu.ft.25	
Minimum Charge:		
For 5/8 x 3/4-inch meter	3.20	
For 3/4-inch meter	5.00	
For 1-inch meter	7.50	
For 1-1/2-inch meter	12.50	
For 2-inch meter	21.00	
For 3-inch meter	35.00	
For 4-inch meter	50.00	(I)

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

SPECIAL CONDITION

Until the 5 percent surcharge to Federal Income Taxes is removed, (C) bills computed under the above tariff will be increased by 1.4 percent. (C)

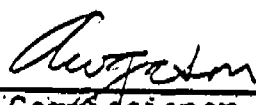
As. 48906, 48907, 49023, 49024 MM
Ds. 77210, 77211, 77212, 77213

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A. W. GATOV, COMMISSIONER, Dissenting:

I dissent in the majority's decisions in Applications Nos. 48906, 48907, 49023 and 49024 because they are unfair, unreasonable, improper and not supported by the record.

The majority opinions, furthermore, disregard the position of the Hearing Examiner who presided at all the hearings. I think it important that there be documented the reasons why the assigned Hearing Examiner does not support the majority decisions, and I have, therefore, appended hereto and incorporated herein by reference, as part of my dissent, his memorandum on the subject.



Commissioner

Attachment

Dated at San Francisco, California,
May 12, 1970.

May 8, 1970

TO THE COMMISSION:

Re: Applications Nos. 48906, 48907,
49023 and 49024.

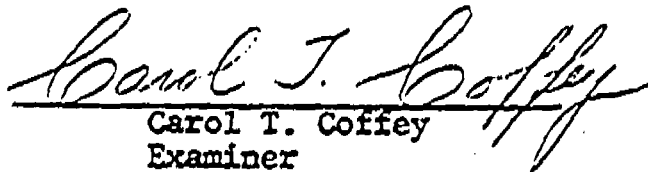
At the request of Commissioner Gatov on May 7, 1970, this is written to advise the Commission why I have not signed the "Instructions for Decisions" for Applications Nos. 48906, 48907, 49023 and 49024 of the Citizens Utilities Company and its affiliates for water rate increases.

These decisions as now proposed do not contain any adjustment or penalty for applicants arbitrarily causing their customers to provide between 9 and 14% more revenue than would have been required if Citizens had elected to minimize its tax expenses by taking accelerated depreciation on its California properties which it did in seven other states where it could reserve for the stockholders all the benefits of accelerated depreciation.

The adopted rate of return for good service, 7.2%, the highest recommended by the staff, is excessive since it does not take into account the systematic inflation of the rate base by applicants for many years prior to the test year. The decisions make no adjustment for the excessive plant overhead reflected in the applicants' watered plant accounts as the result of manipulations by Citizens of the Mutual Service account.

The improvements of service specified as conditions for receiving a 7.2% rate of return will not cause substantial improvements in customer service and will only result in greater public reaction because of increases in rates without discernable service improvements. The decision for Niles, Application No. 48906, provides for increased earning when service is improved in Niles Canyon and Niles business district but ignores the almost universal customer dissatisfaction with service. The decision for North Los Altos provides for improved service in a limited area and for improved flushing but ignores that witnesses repeatedly testified that the service is poor and protested not only the debris content of the water but also the mineral and chlorine content of the water, low pressure, outages and high bills. The decision for Montara relies on a staff estimate that \$100,000 of added plant would greatly improve the service but ignores that still other work will have to be done. The estimate was of such a preliminary and general nature, without specific detail and study, that it is suitable only to indicate magnitudes of required expenditure. The estimate can not be used to indicate improved customer satisfaction with service.

I believe that if the applicants implement the service requirements for the 7.2% rate of return, the customers' reaction to increased rates without discernable service improvements will be much greater in the future than it was in these proceedings where up to 200 irate customers attended the hearings. If the Commission desires to make increased earnings contingent upon improved service, the applicants should be required to meet the service standards of General Order No. 103, or to obtain permission to deviate therefrom in those instances where the economic cost of service improvement is not justified, the service problems being specifically determined by a comprehensive survey by applicants of customer and system service deficiencies.


Carol T. Coffey
Examiner