

ORIGINAL

Decision No. 77213

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 49024
(Filed December 14, 1966;
Amended April 23, 1968.)

Weyman I. Lundquist and John H. Cutler,
for Inverness Water Company, applicant.
Thomas T. Storer, for self and two other
consumer families, 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 28 and 30 in Inverness and on November 13, 19 and 26, 1968, in San Francisco. The application was called for hearing and adjourned without the receipt of substantial evidence on November 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.^{1/}

^{1/} Accumulated hearing time approximates two days of hearing, which is perhaps a better indicator here than the recitation of hearing days.

This application was submitted on April 3, 1969, upon the receipt of the reporter's transcript. ^{2/} 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.

On August 21, 1969, applicant filed a petition for interim rate relief pending conclusion of this proceeding. Decision No.

^{2/} On October 28, 1966, applicant's affiliate, Citizens California, requested increased water rates for service in its Guerneville District, Application No. 48905, and 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, Citizens California requested increased water rates in its Montara District, Application No. 49023. 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.

76173, 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 6.0 percent.

On February 10, 1970, applicants 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% 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 supporting opinions set forth in said decision which is hereby made a part of this decision.

Applicant presented 6 exhibits and testimony by three witnesses in support of its request for authority to increase its rates and charges for water service. Four witnesses from the Commission presented four exhibits setting forth the results of their independent

study and investigation of applicant's operations.^{3/} Rate protests and service problem presentations were made by four witnesses.

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.

The applicant serves the unincorporated communities of Inverness, Sea Haven, Drakes Beach, and the areas immediately adjacent to these locations in Marin County. The facilities are divided into three systems, each operating independently of the other two. Water production is from five creek diversions supplemented by five wells. Storage includes seventeen tanks or collection points, with a total capacity of 213,000 gallons. At the end of 1968, there were about 52,200 feet of distribution mains in service. These range from 1 to 6 inches in diameter. In 1968, applicant served approximately 375 metered and 38 flat rate fire protection active service connections.

^{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 on rate of return in Application No. 49023 and on other common issues in Application No. 48905.

The average annual increase in the number of utility customers has been less than 10 per year since 1964, with fluctuations in the amount of annual increase.^{4/}

Applicant's Requested Rate Proposal

The following tabulation shows the present (prior to September 10, 1969) and proposed general metered service rates together with the percentage increases:

Present and Proposed Meter Rates

Item	Present	Proposed	Increase: Percent
------	---------	----------	----------------------

Monthly Quantity Rates:

		<u>Per Meter Per Month</u>		
First	400 cu.ft. or less	\$ 4.65	\$ 8.70	87.1%
Next	600 cu.ft., per 100 cu.ft.	.60	1.126	87.7
Over	1,000 cu.ft., per 100 cu.ft.	.50	.930	86.0

Annual Minimum Charge:

For	5/8 x 3/4-inch meter	55.80	104.40	87.1
For	3/4-inch meter	72.00	135.00	87.5
For	1-inch meter	108.00	202.50	87.5
For	1-1/2-inch meter	174.00	326.00	87.4
For	2-inch meter	252.00	470.00	86.5

An average customer receiving 600 cubic feet per month would be billed every two months \$11.70 under present rates and \$21.90 under proposed rates, an increase of 87 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

^{4/} Since applicant incorrectly reports to the Commission the number of bills rendered rather than active service connections, the actual number of customers cannot be stated.

tabulation with the amounts adopted in this proceeding at rates which are authorized herein:

SUMMARY OF EARNINGS
YEAR 1968 ESTIMATED

<u>Item</u>	<u>Present Rates^a</u>		<u>Proposed Rates</u>		<u>Adopted Results</u>
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>	
Operating Revenues	\$ 28,0433	\$ 28,520	\$ 51,978	\$ 52,830	\$ 49,150
<u>Operating Expenses</u>					
Oper. and Maint. Exps.	9,662	9,660	9,721	9,660	9,700
Admin. & Gen. & Misc. Exps.	6,097	5,060	6,097	5,060	4,600
Depreciation Expense	6,674	6,450	6,674	6,450	6,450
Taxes Other Than on Income	2,561	2,540	2,561	2,540	2,540
Taxes Based on Income (Excl. 10% Surcharge)	100 ^b	(2,250) ^b	5,577 ^b	6,290 ^b	8,970 ^c
Total Operating Exps.	25,094	21,460	30,630	30,000	32,260
Net Revenue	2,949	7,060	21,348	22,830	16,890
Depreciated Rate Base	258,053	239,520	258,053	239,520	234,520
Rate of Return	1.1%	2.9%	8.3%	9.5%	7.2%
	(Negative)				

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

Revenues

The staff differs from applicant in the estimate of commercial metered service revenues partly due to the staff's use of a slightly higher annual consumption per customer, resulting from averaging the latest five recorded years, 1963 through 1967. Applicant, in adjusting annual consumption for normal climatic conditions, has used weather bureau data for Petaluma, the nearest available. The staff does not consider this data applicable to the Inverness area.

We find the staff method of estimating revenues reasonable. It is noted that interim rates authorized by Decision No. 76173 are

estimated to produce \$40,020 or \$9,130 less than the operating revenue requirement of \$49,150 indicated herein by the adopted results.

Operating and Maintenance Expenses

The differences in estimates of net revenue are primarily the result of differences between applicant and the staff concerning administrative and general expenses and the following additional items: the staff use of negative amounts for income taxes and the staff's exclusion from rate base of \$9,840 representing applicant's Well No. 2.

Administrative and General and Miscellaneous Expenses

The issues of concern here are substantially the same as those discussed in the examiner's report dated October 9, 1969, on Citizens California's request for authorization to increase 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' Welfare and Pensions Expense is \$1,200 and that of applicant is \$1,035. We find \$959 to be reasonable for this expense in this proceeding.

Applicant estimated Regulatory Commission Expenses to be \$1,898 and the staff estimated them to be \$970. We find the staff estimate reasonable.

Applicant estimated Mutual Service Charges to be \$2,569 and the staff estimated them to be \$2,000 plus \$300 for executive salaries and expenses. We find \$2,080 to be reasonable for this expense in this proceeding.

We find \$4,600 to be a reasonable estimate of administrative and general and miscellaneous expenses in this proceeding.

Taxes Based on Income

The issues of the surcharge on income taxes and investment tax credit were all considered in Decision No. 76996.

Since a 5 percent surcharge to federal income taxes will be in effect for the first six months of 1970, we will make a 1.75% tariff surcharge in the authorized rates. Reflecting current income tax regulations, we have excluded the investment tax credit in the calculation of income taxes.

Rate Base

In the years 1960 and 1961 applicant drilled and equipped two wells within 50 yards of each other in the "second" valley. The production of each well is alleged to be 15 gallons per minute. The staff contends that applicant in drilling and equipping the second well of this group has been imprudent in that data available to applicant indicated unfavorable production. Therefore, for rate-making purposes the staff has excluded from rate base the depreciated original cost of drilling and equipping the second well.

Applicant argued that because of applicant's reliance upon surface waters as the principal source of supply for a major portion of this system, Well No. 2 provides a vital water source for emergencies. On one occasion in 1967, the water in applicant's reserve tank for the Inverness area sank to a low level of four feet. Applicant argues this was dangerous since if water then had been necessary for fire protection, the additional water source provided by Well No. 2 would have become crucial. Applicant reported that the well on October 30, 1968, flowed at somewhat less than 5 gallons per minute. The Commission in Decision No. 65404, dated May 14, 1963, Application No. 44221, eliminated this well from the rate base.

We note that applicant has received at present rates \$14,295, or 61% of its gross operating revenue in January 1967. Here, as described in Decision No. 76996, on Application No. 48905, the prepayment by customers of revenues generates funds available and used by applicant to provide utility service. We find it reasonable to reduce the staff rate base by \$5,000 as the average amount of working cash advanced by customers, which applicant was provided in excess of the needs for the payment 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 reasonable the weighted average depreciated rate base to be \$234,520.

Service

The substantial improvement in applicant's service since its last rate increase application in 1962 is demonstrated by the decrease in required hearing time at Inverness from four days to that of the present proceeding of less than one and one-half days and the decrease in the number of public witnesses from seventeen to four.

One customer complained of low water pressure resulting from a number of homes being served by the inadequate main to the customer's elevated premises. The customer testified that remedies are available which have been vetoed by management.

Two other witnesses complained of the chlorination and one commented the water was dirty on occasion.

A witness complained of the lack of action by applicant to his written complaints and of the failure of applicant to repair a road washout following the installation of a water main and heavy rains, which made access impossible to the complainant's home. Access

was restored after five weeks but the road was not properly graded by applicant. The witness testified that applicant, after having been advised of his complaint to the Commission that noise from a booster pump interfered with sleep, substantially improved the pump operation but permitted the noise to return within three months.

From this record, it appears that applicant's local representative is a very cooperative man.^{5/}

We will reiterate here what we said in the decision on Application No. 48906 regarding service in the Niles District:

"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 revenues produced by the service improvements could be insufficient to establish the project as economically profitable."

We add that if applicant is unable to render service in accordance with the standards of this Commission, it should request Commission authorization to deviate from the Commission's prescribed service standards.

Applicant has substantially improved its service since its last rate case. The value of the service and improvement in service will be considered in the determination of the rate of return allowed in this proceeding.

Accounting

Staff recommendations on the accounting procedures of applicant's affiliate, Citizens California, were reviewed in Decision No. 76996, Application No. 48905. The discussion and ordering paragraphs on accounting matters contained therein apply to applicant's water operations and will not be repeated herein.

^{5/} In the presence of applicant's attorneys, staff representatives and the examiner, during a short recess in the hearing, a number of applicant's customers commended highly the dedication and willingness of applicant's local representative to do all in his power to maintain water service, even during the most adverse condition of storm and darkness. Unfortunately these comments are not in this record, except as summarized by a customer at Tr. 105.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of revenue in addition to that 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 7.2 percent on applicant's rate base is reasonable. It is estimated that such rate of return will provide a return of 8.68 percent on common equity allocated to applicant.

4. 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 in part.

An average customer using 600 cubic feet of water per month will be charged \$20.20 every two months, an increase of about 73 percent.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Inverness Water Company may file 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. 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 Synovitz
President

[Signature]

Vernon L. Sturgeon
Commissioner



*I will file a
desert.
again*

APPENDIX A
Page 1 of 2

Schedule No. 1A

ANNUAL METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Inverness, Drakes Bay and vicinity, Marin County.

RATES

Per Meter
Per Month

Monthly Quantity Rates:

First	400 cu.ft. or less	.....	\$ 8.50	(I)
Next	600 cu.ft., per 100 cu.ft.	.....	.80	
Over	1,000 cu.ft., per 100 cu.ft.	.....	.70	

Annual Minimum Charge:

Per Meter Per Year

For	5/8 x 3/4-inch meter	.....	\$102.00	
For	3/4-inch meter	.....	138.00	
For	1-inch meter	.....	204.00	
For	1 1/2-inch meter	.....	342.00	
For	2-inch meter	.....	480.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

(D)

SPECIAL CONDITIONS

1. The annual minimum 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 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly

(Continued)

Schedule No. 1A

ANNUAL METERED SERVICE

(T)

SPECIAL CONDITIONS—Contd.

or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. 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 will 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. Until the 5 percent surcharge to Federal income taxes is removed, (N) all bills computed under the above tariff will be increased by 175 percent. (N)


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

6

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