

Decision No. 78665

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CITIZENS UTILITIES COMPANY OF CALIFORNIA, a corporation, for authority first, to increase its rates and charges for its water system serving the town and vicinity of Felton in Santa Cruz County, and second, for interim rate relief.

Application No. 52159  
(Filed August 26, 1970)

In the Matter of the Application of WASHINGTON WATER AND LIGHT COMPANY, a corporation, for authority first, to increase its rates and to alter its rate schedules for its water system serving the unincorporated communities and subdivisions of West Sacramento, Bryte, Broderick, the Port of Sacramento, Arlington Oaks and Linden Acres in Yolo County, and second, for interim rate relief.

Application No. 52160  
(Filed August 26, 1970)

In the Matter of the Application of LARKFIELD WATER COMPANY, a corporation, for authority first, to increase its rates and charges for its water system serving the unincorporated subdivision of Larkfield Estates and vicinity north of Santa Rosa in Sonoma County, and second, for interim rate relief.

Application No. 52161  
(Filed August 26, 1970)

Heller, Ehrman, White and McAuliffe, by  
Weyman I. Lundquist, Attorney at Law,  
for applicants.  
Charles R. Mack, County Counsel, Yolo  
County, intervenor.  
Donald Meaney, Attorney at Law, and J. D.  
Reader, for the Commission staff.

INTERIM OPINION

In Application No. 52159, Citizens Utilities Company of California (Citizens-California), a wholly owned subsidiary of

Citizens Utilities Company of Delaware (Citizens-Delaware), requests an increase in rates for water service by its Felton Water District.<sup>1</sup> In Applications Nos. 52160 and 52161, two subsidiary companies of Citizens-Delaware, the Washington Water and Light Company (Washington), and the Larkfield Water Company (Larkfield), also seek water rate increases.

Since the three applications present some common issues related to the common ownership by Citizens-Delaware, they were consolidated for public hearings. In addition each applicant requested interim rate relief in the amount necessary to produce the requested rate of return of 9.3 to 11.5 percent. A public hearing was held on this question before Examiner Foley on January 21, 1971 in San Francisco. The matter was submitted subject to briefs.

Washington Water and Light Company

Citizens-Delaware acquired all of Washington's capital stock in 1967. Washington serves over 5,000 flat rate and 170 metered service customers located in the eastern section of Yolo County just west of Sacramento.

Its present rates were last established in 1961 (Decision No. 61645, dated March 14, 1961, in Application No. 42425), except that an increase was granted in 1970 to offset the federal income tax surcharge (Decision No. 77135, dated April 21, 1970, in Application No. 50568).

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<sup>1</sup> Citizens-Delaware is a nationwide utility which provides gas, electric, telephone and water services in over 450 communities in the U. S.

The rate of return authorized by Decision No. 61645 is 6.25 percent. Washington's recorded rates of return for 1968 and 1969, and its pro-forma rates of return for 1970 are set forth below:

<u>Recorded</u>		<u>Pro Forma</u>
<u>1968</u>	<u>1969</u>	<u>1970</u>
6.14%	5.27%	3.60%

(Source: Exh.W-1, Table 12-A)

At the hearing Washington presented a revised pro forma estimate of its 1970 rate of return as being 2.30 percent. However, its witness, the rate manager of Citizens-Delaware, admitted that there was an overestimate for the utility plant in service for 1970 (Tr. 38). Therefore, the original estimate for depreciation in 1970 should be revised downward. This situation means that the actual 1970 rate of return figures will be higher than the latest pro forma figure.

Washington's original estimate of its pro forma 1970 net operating income was \$46,188 (Exh. W-1). Under its revised exhibit, the estimated net income has been reduced to \$30,360 (Exh. W-2). Its estimate of interest expense for 1970, on the other hand, is \$35,000. Approximately \$21,000 of this amount is interest on debt obligations of Washington, and the remainder constitutes interest charges of Citizens-Delaware imputed to Washington as its share of the interest burden of the entire Citizens utility system (Exh. 9).

Larkfield Water Company

Larkfield, like Washington, is a wholly owned subsidiary of Citizens-Delaware. It was acquired by Citizens-Delaware in 1967. It serves about 500 customers located in an unincorporated area of Sonoma County north of Santa Rosa.

Larkfield's rates were last reviewed by the Commission in Decision No. 72510, dated May 31, 1967, in Application No. 48626.

Its rates were increased by that decision and a 7 percent rate of return was authorized. By Decision No. 77134, dated April 21, 1970, in Application No. 50573, Larkfield was granted an offset rate increase to cover the effect of the federal income tax surcharge. By Decision No. 77751, dated September 22, 1970, in Application No. 52085, Larkfield was granted another offset rate increase to compensate for an increase in the cost of purchased water.

Larkfield's recent recorded rates of return and its 1970 pro forma rate of return are as follows:

<u>Recorded</u>		<u>Pro Forma</u>
<u>1968</u>	<u>1969</u>	<u>1970</u>
6.87%	6.50%	2.90%

(Source: Exh. L-1, Table 12-A)

The revised 1970 pro forma rate of return introduced at the hearing is 1.57 percent (Exh. L-2). As in the case of Washington, the 1970 pro forma rate of return estimates are not adjusted for the over-estimation in size of Larkfield's plant and the resulting smaller depreciation accrual.

Larkfield's original estimate of its 1970 pro forma net income was \$7,757 (Exh. L-1). This estimate has been reduced to \$4,790 in its revision prepared for the interim rate hearing (Exh. L-2). Although Larkfield does not have any outstanding debt obligations of its own, the amount of \$7,685 in interest expenses of Citizens-Delaware has been imputed to it as its share of the nationwide system's interest burden.

#### Felton District of Citizens-California

Citizens-California acquired the Felton District in 1962 when it acquired all the stock of the Felton Water Company. The Felton District serves over 900 customers near Felton in Santa Cruz County.

Felton was authorized to increase its water rates in Application No. 45164, dated February 5, 1963, by Decision No. 68706, dated March 9, 1965, after rehearing. The Commission found that a 6.5 percent rate of return was reasonable. Felton was also granted a rate increase to offset the federal income tax surcharge by Decision No. 77133, dated April 21, 1970, in Application No. 50567.

The recent rate of return history of Felton is as follows:

<u>Recorded</u>		<u>Pro Forma</u>
<u>1968</u>	<u>1969</u>	<u>1970</u>
4.91%	5.29%	1.72%

(Source: Exh. F-1, Table 12-A)

The revised pro forma 1970 return presented at the hearing is 1.53 percent (Exh. F-2). These 1970 estimates are not adjusted for the overestimation of utility plant for 1970 and the resulting smaller depreciation accrual.

Felton originally estimated its 1970 pro forma net income as \$3,962 (Exh. F-1, Table 12-A). Upon revision this estimate has been increased to \$4,898 (Exh. F-2). As in the case of Larkfield Felton does not have any debt obligations. However, interest expense of its parent in the amount of \$6,670 has been allocated to it.

#### Discussion

The three applicants base their claim for interim rate relief on these grounds: that there has been a drastic drop in their rates of return because of the current period of inflation and as a result of their restraint in not applying for relief sooner; that each applicant's revised projected 1970 revenues fail to cover its allocated share of the interest expense for Citizens' nationwide utility system; and that the anticipated delay in securing a final decision from the Commission will cause a further decline in their rates of return. The Commission staff opposes any interim

relief on the ground that no financial emergency exists for any of the three applicants or for Citizens-California or Citizens-Delaware.

The Commission has held that interim rate relief is an extraordinary remedy justified only if the utility faces a financial emergency. Such an emergency exists if the minimum financial obligations, such as current payroll or interest payments, cannot be met (Pacific Electric Railway (1942), 44 C.R.C. 885, 888; Coast Counties Gas & Electric Co. (1951) 50 Cal. P.U.C. 580, 586; Citizens Utilities Co. (1957) 55 Cal. P.U.C. 628, 630; San Diego Gas & Electric Co. (1961) 58 Cal. P.U.C. 684, 685). Furthermore, in evaluating the utility's financial situation we have considered the overall earnings position of the utility, and not just the earnings of the particular department seeking interim relief (Coast Counties Gas & Electric Co., and San Diego Gas & Electric Co., supra).

Recently, the Commission has granted interim rate relief to the General Telephone Company (Decision No. 78133, dated December 22, 1970, in Application No. 51904). This increase was based on the downward trend of General's times-interest-earned after taxes from 3.46 in 1964 to 1.87 estimated for 1970, and on the expected loss of its "A" bond rating in light of its long-term debt ratio of 55 percent in addition to very large forthcoming capital requirements. The relief was supported by the Commission staff, and it was granted because of the "extraordinary circumstances of this case" (Decision No. 78133, page 10).

More recently, we have denied interim rate relief to Southern California Edison Company on the ground that it failed to show any inability to attract capital or meet its financial obligations. (Decision No. 78441, dated March 16, 1971, in Application No. 52336.)

Turning first to the petitions of Washington and Larkfield, the most recent estimates for 1970 appear to indicate that earnings fail to meet interest expense:<sup>2</sup>

	<u>1970 Estimated Net Revenue</u>	<u>1970 Estimated Debt Charges</u>
Washington	\$30,360	\$35,000
Larkfield	4,790	7,685

Standing alone these figures support immediate rate relief. However, since the applicants are wholly owned subsidiaries of Citizens-Delaware, its overall financial position must be considered. This is particularly appropriate in these applications because only one of them, Washington, has any debt obligations of its own; and this obligation amounted to only \$21,000 in 1970. To the extent that these applicants require debt capital they look to and depend upon the financial position and capital-attracting ability of Citizens-Delaware. Furthermore, one reason advanced by the applicants for interim relief is that Citizens-Delaware's cost of imbedded debt has risen to 6.92 percent as a result of its recent bond sale in 1970.

The times-interest-earned after taxes position of Citizens-Delaware from 1964 through 1969 is as follows:

<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
3.6	3.9	5.7	5.4	6.1	3.5

(Source: Exh. 7, page 26.)

These figures demonstrate a sound position with regard to this indicator of financial condition, even though the 1969 figure is down

<sup>2</sup> The original estimates introduced with the applications indicated 1970 net revenues in excess of the debt charges applicable to each. One of the expense items attributed to cause the further estimated decline in 1970 earnings is the longer than expected number of hearing days scheduled for 1971 (Exh. 4, pages 10 and 11.) Of course, the number of actual hearing days is unknown, and how their expense, incurred during 1971, will affect the 1970 test year earnings is unclear.

from the prior year. Although the 1970 figure is not available, Citizens-Delaware successfully sold during November 1970 an additional \$20,000,000 in first mortgage bonds. This indicates that in terms of ability to attract debt capital and meet interest obligations, the capital market considers Citizens' position as adequate.

Moreover, Citizens-Delaware had a very strong equity ratio: 56 percent of its total capitalization comprised equity in 1969 (Exh. 7, page 9). Its present capitalization ratio is 55 percent equity and 45 percent debt (Exh. 4, page 9). Although no rate of return results were introduced for Citizens-Delaware, the staff, utilizing data set forth in the bond prospectus (Exh. 8), has estimated its rate of return for the year ending June 30, 1970 at 8.88 percent.

After considering the position of Washington and Larkfield and its parent, Citizens-Delaware, it is reasonable to conclude that no financial emergency exists which justifies an interim rate increase pending hearings scheduled for April and May 1971.<sup>3</sup> We recognize that as two of Citizens' operating units Washington and Larkfield are expected to contribute to the earnings of the entire Citizens' system. That is the purpose of the application for increased rates. However, insofar as interim rate relief is concerned, it cannot be said that either Washington or Larkfield is faced with a financial emergency when the overall position of its parent is evaluated. Likewise Citizens-Delaware's financial position is strong. And Washington, by its latest and lowest estimate of

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<sup>3</sup> This conclusion follows even if we disregard the applicants' parent corporation and focus only on them. In that event applicants Larkfield and Felton do not have any interest obligations because they have no outstanding debt; and applicant Washington has sufficient projected 1970 revenues (\$30,000) to cover its interest obligation (\$21,000).



1970 net revenues has adequate earnings to cover the interest obligations on its own debt.

Felton Water District is one of the operating units of Citizens-California, which in turn furnishes water service in 12 areas located in seven counties in California. It also provides telephone service in four California counties and one Nevada county.

Felton's latest estimate of 1970 earnings is \$4,898, which is also less than its allocated share of system wide debt in the amount of \$6,670. Standing alone this estimate would presumably justify interim rate relief. However, when the times-interest-earned position of Felton's parent, Citizens-California, as well as the latter's parent, Citizens-Delaware, is considered, this presumption is rebutted.

Citizens-California has submitted its income statement for 1968 and 1969 (Exh. 1). Its times-interest-earned position for 1968 was at least 17 to 1, and 21 to 1, for 1969 (Exh. 1, Table 4-A). This very strong position is primarily due to the fact that its only long-term debt is a \$1,325,000 promissory note, with a 3.5 percent annual interest rate, owing to its associated companies pursuant to Decision No. 46341, dated October 30, 1951, in Application No. 32763. Its rate of return for the year ending May 31, 1970 was 7.0 percent. Its 1969 net income showed a 12.2 percent increase in 1969 over 1968. It is reasonable to conclude, therefore, that Felton is not faced with a financial emergency when the interest coverage and operating results of its immediate parent are considered.

The three applicants point to their low rates of return to justify interim relief. Although the estimated 1970 rates of return are substantially lower than in the previous years and lower than those rates last authorized by the Commission, they are not confiscatory in the light of the earnings position of their parent

companies. Regulation does not guarantee a profit. A utility is entitled only to the opportunity to earn a certain rate of return (Federal Power Comm. v. Natural Gas Pipeline Co. (1942) 315 U.S. 575, 590). It may earn more or less.

The applicants complain that the time required to secure a final decision from the Commission justifies an interim rate increase. We do not agree. The hearings are scheduled to be completed by May 27, 1971. The applications are consolidated in part so that upon issuance of a decision the rates of all three applicants will undoubtedly be decided at the same time. If a decision is not forthcoming within a reasonable time, and the applicants' financial position deteriorates, they can again seek interim relief.

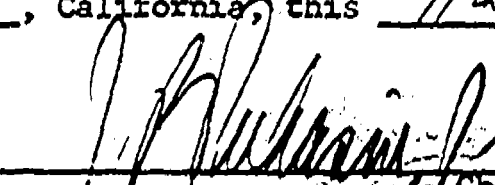
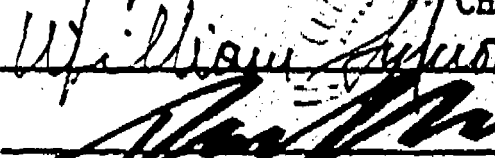

The Commission finds that the record does not justify the granting of applicants' petitions for interim rate increases at this time because they do not face a financial emergency. Accordingly, applicants' petitions will be denied.

O R D E R

IT IS ORDERED that the petition by each applicant for interim rate relief is denied.

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

Dated at San Francisco, California, this 11<sup>th</sup> day of MAY, 1971.

  
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William J. Sullivan  
Chairman  
  
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Commissioners