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ORIGINAL

Decision No. 79915

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 town 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 applicant.
Charles R. Mack, County Counsel, Yolo County, and Lynn D. Finney, Assistant County Counsel, Santa Cruz County, intervenors.
James A. Thompson, Attorney at Law, interested party.
Donald Meaney, Attorney at Law, and J. D. Reader, for the Commission staff.

OPINION

In Application No. 52161, Larkfield Water Company (Larkfield), a wholly owned subsidiary of Citizens Utilities Company of Delaware (Citizens-Delaware), requests an increase in rates for water service.1/ The application was consolidated for hearing purposes with similar requests by another subsidiary company of Citizens-Delaware, the Washington Water and Light Company, in Application No. 52160; and by the Felton Water District of Citizens Utilities Company of California,2/ a wholly owned subsidiary of Citizens-Delaware, in Application No. 52159. Issues common to all three applications were

1/ Citizens-Delaware is a nationwide utility which provides gas, electric, telephone and water services in over 450 communities in the U. S. It had gross operating revenues of over $27 million during 1969.

2/ As of December 31, 1969, Citizens-California owned and operated water systems which serve over 21,000 consumers in twelve separate districts or areas in Northern California.

heard in public hearings before Examiner Foley on May 6 and 7, 1971 in San Francisco. An additional two days of public hearing relating to the operations of Larkfield were held on May 17 and 18, 1971 in Santa Rosa. The matter was submitted subject to the filing of briefs on July 14, 1971, August 13, 1971, and September 15, 1971.

Citizens-Delaware acquired Larkfield in 1967. Larkfield serves about 500 customers north of Santa Rosa in an unincorporated area of Sonoma County. Its sources of water supply include two wells and a connection to the Sonoma County Water Agency's aqueduct. The connection to the Agency's aqueduct is necessary because the combined capacity of the two wells is limited to 375 gallons per minute. There are three storage tanks which provide a combined total storage capacity of 235,000 gallons.

Larkfield was last authorized to increase its water rates by Decision No. 72510, dated May 31, 1967, in Application No. 48626. The Commission found that a 7 percent rate of return was reasonable. 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, the applicant was granted another offset rate increase to compensate for an increase in the cost of purchased water. An interim rate increase in this proceeding was denied by Decision No. 78665, dated May 11, 1971.

Present and Proposed Rates

Applicant proposes that its rates be increased by $25,745 or 37 percent for the test year 1970 in order to realize a rate of return between 9.3 and 11.5 percent on its net investment rate base. At the time applicant prepared its estimate of present revenues, the water rates in effect did not include the offset increase granted by the Commission in Decision No. 77751, *supra*. The proposed increases amount to a 37 percent increase in service charges, and about a 24 percent increase in quantity charges over the rates in effect as a result of Decision No. 77751.

The proposed rates would result in increases to customers for general metered service as shown below:

	Per Meter Per Month Present Rates	Per Meter Per Month Proposed Rates
Service Charge:		
For 5/8 x 3/4-inch meter	$ 3.20	$ 4.40
For 3/4-inch meter	3.50	4.80
For 1-inch meter	4.80	6.60
For 1-1/2-inch meter	6.75	9.30
For 2-inch meter	8.75	12.00
For 3-inch meter	16.00	27.00
For 4-inch meter	22.00	30.00
For 6-inch meter	35.00	48.00
Quantity Rates:		
For the first 50,000 cu. ft., per 100 cu. ft.	$ .2432	$ .304
For all over 50,000 cu. ft., per 100 cu. ft.	.2032	.250

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Applicant does not seek any increase in the presently authorized charges for fire protection services.

Summaries of Earnings

The following are the applicant's and the staff's adjusted summaries of earnings for the year 1970:

Item	Applicant: Present Rates 1/	Applicant: Proposed Rates 2/	Staff Revised, 1970 Estimated 3/: Present Rates	Staff Revised, 1970 Estimated 3/: Proposed Rates	Applicant Exceeds Staff: Present	Applicant Exceeds Staff: Proposed
Operating Revenues	$ 69,423	$ 95,168	$ 78,730	$ 98,670	$ (9,307)	$ (3,502)
Operating Expenses						
Oper. & Maint. Exp.	33,289	33,545	37,835	37,873	(4,546)	(4,328)
Adm. & Gen. Exp.	8,469	8,609	6,461	6,601	2,008	2,008
Depreciation	9,352	10,158	9,279	9,279	73	879
Taxes Other Than Income	10,456	12,617	10,077	10,077	379	2,540
Income Taxes	100	10,272	2,525	12,730	(2,425)	(2,458)
Total Expenses	61,666	75,201	66,177	76,560	(4,511)	(1,359)
Net Operating Rev.	7,757	19,967	12,553	22,110	(4,776)	(2,143)
Average Rate Base	267,447	305,047	245,300	245,300	22,147	59,747
Rate of Return	2.90%	6.55%	5.12%	9.01%	(2.22)%	(2.46)%

(Red Figure)

1/ Exh. No. L-8.
2/ Tables 3 & 4, Citizens Brief.
3/ Exh. No. L-13.

Rate Base

The applicant's revised estimate of rate base is $59,747 greater than the staff's. The Commission staff's primary exclusions are: (1) a new well for which test drilling is in progress, (2) a portion of the 12-inch transmission main which connects Larkfield with the Sonoma County Water Agency's aqueduct because only an 8-inch main is necessary to serve the applicant's customers, and (3) a portion of the allowance for working cash, including the entire amount of minimum bank balances Citizens-Delaware maintains with its bank creditors.

The staff did include in the test year rate base 1,000 feet of 8-inch pipeline to interconnect existing mains which were under construction and scheduled for completion shortly after the hearing. This recommendation was based on the fact that 1970 was adopted as the test year in order to eliminate the delay which would have occurred if 1971 had been utilized. The staff explained that its position is an exception to its usual position in this regard, and that a lack of consideration of known improvements would have been unfair to the applicants under these circumstances.

1. The Proposed New Well.

Applicant argues that all the staff's recommended exclusions should be rejected. Its systems engineer related that the proposed new well is required because Larkfield's present Well No. 2 is producing turbid water at an inadequate rate after the failure of its casing. Although test drilling had commenced at the time of the hearing, the witness testified that the drilling contractor had experienced many difficulties and considerable expense in the drilling operations, including a cave-in of the test hole. (Tr. 761-769.) He also stated that it did not appear likely that the well would produce the desired quantity or quality of water originally hoped for. Furthermore, a contract for actual construction of the well has not been executed, but it was expected that the new well would be completed by the end of the summer of 1971.

At the close of the hearing, the staff reevaluated its position on this matter and recommended that since the existence and usefulness of the well is uncertain, it should not be included in the applicant's plant for rate-making purposes. Rather the staff urges that the applicant's increased allowance for the cost of purchased water should be accepted for rate-making purposes. The staff also recommends that since this alternative is more costly, the applicant should be required to report its water purchases and costs every six months through 1973.

In light of the uncertainty regarding the completion of this well, including the uncertainty of the quality and quantity of water that may be produced from it, the staff's position is reasonable and will be adopted even though it results in greater expenses for rate-making purposes.

2. Partial Exclusion of Twelve-Inch Transmission Line.

In the last proceeding involving Larkfield, the Commission adopted the staff's recommendation that the cost of construction of a 12-inch main utilized to connect with the Sonoma County Water Agency be excluded from the applicant's rate base. (Decision

No. 72510, dated May 31, 1967, in Application No. 48626.) This main, which was built in 1964, was excluded from the rate base because it was not necessary at that time for the applicant's operations.

In this proceeding the staff has revised its position. It accepts the necessity for the line since the applicant does now require purchased water from the County Agency. However, the staff recommends inclusion of the cost of only an 8-inch line on the ground that a 12-inch main is oversized. The staff's reason for partial inclusion of the main is the failure of one well and the uncertainty surrounding the construction and effectiveness of a new well. The staff has excluded about 25 percent of the main's cost, or $12,395 from its total cost of $53,690.

Applicant opposes this exclusion, and it maintains that the 12-inch line is needed for present operations. Therefore, it urges inclusion of the main's entire cost, arguing that it has prudently acted to anticipate future customer demands.

Applicant's 12-inch main has a capacity of over 1,700 gallons per minute. Its witness measured the peak use demand several times and found the one highest reading to be at 1,530 gallons per minute; most of the measurements, however, varied between 900-1,200 gallons per minute. The staff argues that under the Commission's standards Larkfield's size and type of system calls for only an 800 gallon per minute capacity in the main.

According to the testimony of the applicant's engineer, an 8-inch main has a capacity of 750 gallons per minute and that of a 10-inch main is 1,100 gallons per minute. The staff has substantially revised its position in that it now recognizes the need for an 8-inch line. On the other hand, acceptance of the 12-inch line seems imprudent after considering the measurements as reported by the applicant. Furthermore, Larkfield's distribution system does not have any 10-inch distribution mains, but it does have a considerable quantity of 8-inch main. It appears at this time that the applicant's 12-inch main is oversized and unnecessary. The staff's adjustment is justified and will be adopted.

3. <u>Working Cash and Minimum Bank Balances</u>.

The staff has disallowed $5,976 in applicant's estimate of working cash, including minimum bank balances required to be held for short term financing. A small part of this disallowance results because the staff found a mathematical error in the applicant's work papers. Most of it represents a portion of the amount of minimum bank balances Citizens-Delaware is required to keep with banks in order to acquire short term financing at the prime rate. Citizens-Delaware urges that such balances are a cost of doing business which permits it to acquire prime rate financing. The banks in which these deposits are held include Midland Marine Bank of New York, Chemical Bank of New York, Bank of Hawaii, and the Bank of America. The short term borrowings are utilized by Citizens-Delaware for such purposes as construction or tax payments, and other general corporate purposes. Applicant cites cases in other jurisdictions where inclusion of such balances in addition to operational working cash has been permitted.

The staff objects to the inclusion of these balances, and argues that deposits in out-of-state banks are not directly related to the day-to-day operations of Larkfield. Applicant does not itself make any short term borrowings. Therefore, these balances are not directly related to the day-to-day activities of the applicant. It also appears that a similar disallowance was applied in the <u>Guerneville</u> decision. (See Decision No. 76996, pp. 45-6.) Therefore, the Commission's prior position will be adhered to, and the staff's estimate of working cash is adopted.

We find the applicant's average depreciated rate base for the 1970 test year is $245,300. We find this rate base to be reasonable.

<u>Operating Revenues</u>

After the applicant adjusted its estimate of revenues for the recent rate increase granted in Decision No. 77751, <u>supra</u>, the only significant difference between the staff's and applicant's revenue estimates results from different views as to the annual water consumption per customer

Applicant calculated the average annual usage per customer to be 245 ccf. The applicant's witness determined that the average consumption per customer for the three-year period 1968-1970 was 261 ccf. However, he then normalized this figure to 245 ccf on the basis that climatological conditions indicated that this period was extremely hot and dry.

The Commission staff utilized 260 ccf per customer in its estimate of revenues. The staff witness explained that water usage is generally increasing with the acquisition of additional home appliances and that some of the service area consists of higher than average income homes. (Tr. 802-3.) The witness further criticized the applicant's study in that after adjustment for weather conditions, it showed a declining trend in water usage. This is contrary to the staff's studies and experience.

The staff's position appears to be based on more reliable experience than Larkfield's. The latter's estimate places undue reliance upon a particular hot and dry period.

The position of the Commission staff is reasonable, and its estimate of revenues for the 1970 test year will be adopted.

Operation and Maintenance Expenses

The staff's estimates of the operation and maintenance expenses exceed those of the applicant at present rates by $4,546. Most of this difference results because applicant's Well No. 2 is not operating satisfactorily and may have to be abandoned. Applicant's systems engineer testified that this well is pumping sand and turbid water, and that as a result test drilling for a new well is in progress. The staff assumed that since Well No. 2 will be utilized on a limited basis or abandoned, there would be less operation and maintenance expense. Accordingly, it reduced Larkfield's cost estimates for salaries, materials and transportation expense which are related to Well No. 2. These reductions amount to $747.

On the other hand, the staff increased applicant's cost estimates for purchased power and water by $5,293 to reflect Larkfield's need to purchase more water to offset the loss in production from Well No. 2.

The applicant's systems engineer testified that Well No. 2 was shut down while test drilling for a nearby new well was in progress. He further stated that some difficulty was being experienced with the test drilling and that the production capability of a new well was uncertain. Although the new well is expected to be in operation by the end of the summer of 1971, he also stated that the test drilling remained to be completed, and an agreement for drilling a production well was not executed. In light of these circumstances, the staff's assumption regarding 1970 operations is reasonable, and the staff's calculation of these expenses will be adopted.

Administrative and General Expenses

The applicant and the staff differ in their estimates of these expenses in the amount of $2,008 as follows:

	Applicant's Estimate Exceeds Staff Estimate
Mutual Service Accounts	$ 1,059
Common Plant Expenses	24
Legal and Regulatory Expenses	734
Welfare and Pensions	191
Total Administrative & General Expense - Difference	$ 2,008

The primary dispute between the applicant and the staff relates to the allowance of expense for managerial and executive services from Citizens-California's headquarters at Redding and from Citizens-Delaware's headquarters at Stamford, Connecticut. The issues raised by the difficulty of determining appropriate allocations of these mutual expenses to specific water districts of the applicant for rate-making purposes were discussed in detail in the Commission's recent decision regarding the rate increase application for operations in the Guerneville District of Citizens-California. (Decision No. 76996, dated March 24, 1970, in Application No. 48905, hereinafter referred to as Guerneville decision.)

The staff maintains that the Guerneville decision's methodology should be followed unless the applicant justifies a revision by clear and convincing new proof. The staff also points out that it and the applicant are discussing other possible solutions to this problem, and that given the recent date of the Guerneville decision it should be followed.

As a consequence, the staff's allowance for these mutual service expenses adheres to the Guerneville approach with two adjustments: (1) the staff has included in the allowance for Stamford mutual service expense the salary cost for two assistant vice-president positions which were not allowed in the Guerneville decision because they were vacant, and (2) the staff has allowed certain engineering salaries that were disallowed in Guerneville.

Applicant, on the other hand, contends that an allowance should be accepted for the salary and expenses of Citizens-Delaware's chief executive officer. It argues that Larkfield and California consumers have directly benefited from his unique services, as well as from those performed by other Stamford personnel.

The staff has completely disallowed any portion of salary expense for the chief executive officer in the operating costs of Larkfield. This officer was formerly president of Citizens-Delaware and is now its chairman of the board. The staff has allowed salary expense, based upon the actual salaries paid as of October 15, 1970, for the services of Citizens-Delaware's new president, whose title formerly was executive vice-president and chief operating officer, its treasurer and three assistant vice-presidents. (Tr. 549.) In applying this one disallowance, the staff followed the Guerneville decision in which the Commission disallowed any such salary expense because the information as to the amount and value of time devoted by the chief executive officer to the problems of the Guerneville water district was too vague to permit a reasonable allocation of his salary for rate-making purposes. (Decision No. 76996, pp. 39-40 mimeo.) Applicant's witness testified that there has not been any substantial change in the chief executive officer's duties since the Guerneville proceeding. (Tr. 551.) We agree with the staff that the Guerneville decision should be followed in light of the absence of new evidence on this question, the appointment of a new president of Citizens-Delaware, and the discussions now taking place between the applicant and the staff to resolve the mutual service question.

Applicant disputes one adjustment by the staff for mutual services provided by the Redding office, i.e., by Citizens-California. This adjustment relates to the salary of a water engineer hired in 1970. The staff included $2,000 of the $3,824 actually paid to this engineer during 1970. The staff witness agreed, however, that this engineer works only on water operations and that his salary should be charged to water operations. (Tr. 314-18.) Inclusion of the operating expense portion of the engineer's annual salary of $8,000 to the water properties in California results in $218 of additional operating expenses allocated to Larkfield. Although the test year is 1970 and the engineer was employed for only one quarter of that year, applicant's position is reasonable and will be adopted.

The staff has disallowed $734 for legal and regulatory expenses. The disallowance is derived by deleting all expense for the associate counsel and by reducing transcript expense and the number of man days of per diem expense for Stamford personnel. The staff did allow for an associate counsel during the two days of hearing at San Francisco.

Applicant argues that these disallowances are unreasonable on the ground that an associate counsel is needed to assist in preparing testimony, exhibits, cross-examination and briefs. It also maintains that two transcripts are necessary. Since the Larkfield hearing was not lengthy or complex, nor did it involve a large number of witnesses, the staff's position is reasonable and will be adopted.

Taxes Other Than Income

At present rates the applicant's estimate for ad valorem taxes is $379 above the Commission staff's revised figure. At the proposed rates, the difference is $2,540.

The Commission staff's calculation of these taxes is apparently based upon the actual taxes paid in both the 1969-1970 and 1970-1971 tax years. Although the applicant has received tax relief in the Larkfield service area for the last three years, the staff did not assume that this relief would continue. It estimated taxes without any reduction for possible tax relief. (Tr. 805.)

The staff also excluded from Larkfield's assessed valuation for tax purposes the value of the new well intended to be added to the applicant's plant during 1971 and the value of the excess capacity of the 12-inch water main which serves as a connection to the county aqueduct.

Since applicant argues that these two excluded items should be included in its plant, it seeks inclusion of the ad valorem taxes applicable to each. It also contends that its larger tax estimate provides for future increases in these taxes which will result as a consequence of increased rates.

Tax expense should reflect as nearly as possible actual taxes paid during the test year. Adjustments for future tax changes are speculative and uncertain. Since these two exclusions in plant recommended by the staff have been adopted as discussed above, the staff's calculation of tax expense will be adopted.

Income Tax

The staff's calculation of income tax is computed on an as-paid basis which applicant accepted during the hearing (Tr. 708). Under this method the staff calculated Larkfield's 1970 share of income tax expense to be $2,412 at present rates.

Depreciation Expense

The applicant's claimed depreciation expense at present rates exceeds the staff's revised estimate by $73 and $879 at proposed rates. The staff added $208 to its original estimate of this expense in recognition of the inclusion in applicant's plant of the 8-inch pipeline connecting existing mains on the Old Redwood Highway. The remaining difference results because applicant has included the new well and the 12-inch transmission line without any adjustment. These 1971 additions were rolled back into 1970 in the applicant's calculation and assumed to have been installed as of the beginning of the test year.

For the reasons set forth above in our discussion of rate base, the staff's estimate of depreciation expense will be adopted.

We find that the applicant's results of operations for the 1970 test year at present and proposed rates are as follows:

	1970	
	Present	Proposed
Revenues	$ 78,730	$ 98,670
Expenses		
Oper. and Maint.	37,835	37,873
Adm. and General	6,679	6,819
Depreciation	9,279	9,279
Taxes other than Income	10,077	10,077
Income Taxes	2,412	12,617
Total Expenses	$ 66,282	$ 76,665
Net Oper. Revenue	$ 12,448	$ 22,005
Rate Base	$245,300	$245,300
Rate of Return	5.07%	8.97%

Rate of Return

A public utility is constitutionally entitled to an opportunity to earn a reasonable return on its investment which is lawfully devoted to the public use. It is a percentage expression of the cost of capital utilized in providing service. Within this context, a fair and reasonable rate of return applied to an appropriately derived rate base quantifies the earnings opportunity available to the enterprise after recovery of operating expenses, depreciation allowances and taxes.

Ultimately, the rate of return determination in this proceeding must represent the exercise of informed and impartial judgment by the Commission, which must necessarily give equal weight to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return. Such balancing of interests is directed toward providing water consumers with the lowest rates practicable, consistent with the protection of the utility's capacity to function and progress in furnishing the public with satisfactory, efficient service and to maintain its financial integrity, attract capital on reasonable terms and compensate its stockholders appropriately for the use of their money.

Citizens-Delaware contends its study indicates that an appropriate range for its rate of return is between 9.3 - 11.5 percent. It concludes from this study that the return should be at least 10 percent. This results in a return on common equity in the range of 12 to 14 percent, which Citizens-Delaware asserts is required by the upward trend in bond yields.

Citizens-Delaware's rate of return witness, Mr. Jack Sanders, who is its rate manager, presented a study which includes an analysis and summary of the Federal Reserve Bank discount rate, yields on United States long-term bonds, yields on corporate bonds, the prime rate, the return on various utility common stocks, and the average annual return on Moody's 125 industrial common stocks.

In recommending a rate of return no lower than 10 percent, Citizens-Delaware maintains that for rate of return purposes it is most comparable with a group of combination gas and electric utilities whose median return on equity was 12.54 percent during 1965-69 and 12.20 percent during 1970. (Exhibit No. 10, Table 3 and Exhibit 11.) It urges that utility investors should be offered "investment opportunities comparable with those available among the industrials" (Citizens-Delaware's brief, p. 23). It also points to recent decisions by the Commission involving California water utilities in which it has authorized rates of return which result in returns on equity ranging from 11.25-11.75 percent.

The Commission staff maintains that a reasonable rate of return for Citizens-Delaware is between 7.6 and 7.9 percent. This will result in a return on equity between 8.39 and 8.93 percent. The staff states that its recommendation is based upon: (1) the effective interest rate on long-term debt of 6.61 percent for Citizens-Delaware (Exhibit No. 10, Table 2); (2) recognition of Citizens-Delaware's conservative and less risky capital structure, consisting of an equity ratio of 55 percent; and (3) an allowance for return on equity which is consistent with recent decisions and prevailing economic conditions.

The staff criticizes Citizens-Delaware's study on the ground that it overemphasizes current cost of debt, and de-emphasizes Citizens-Delaware's lower imbedded cost of debt. It argues that no definite long-term trend regarding interest rates can be ascertained under present economic conditions. Furthermore, the staff disputes applicant's exclusion of its low cost REA Notes from consideration of its effective interest rate.

After evaluating the rate of return evidence and testimony, the Commission concludes that the staff's recommended range is more reasonable.

Citizens-Delaware's rate of return request is high in that it seeks a return on equity equivalent with industrial companies. On cross-examination its witness admitted that considering Citizens-Delaware's high equity capital structure and using its imbedded cost of debt in place of the current cost of debt at the time of hearing, its return on equity would be in the range of 15.8 to 16.6 percent. (Tr. 561-3.) This level of equity return is superior to that of many industrial companies in today's highly volatile economy. Comparison of industrial companies' returns on equity with water utilities' returns is inappropriate since the former are in the high risk sector of the economy. Water utilities, on the other hand, deal in a basic commodity without competition and their rates are protected by public utilities commissions. Consequently, they are a less risky investment than industrial companies, and a lower return is normally expected and accepted by the investment community. (See App. So. Calif. Edison Co., Decision No. 78802, dated June 15, 1971, in Application No. 52336.)

The Commission further agrees with the staff that considerable weight should be given to the fact that Citizens-Delaware's capital structure is less risky than most utilities in that its 55 percent equity ratio is well above the common utility level of 40 percent. Moreover, the strength of its financial position is well demonstrated by its dividend distribution record. According to its 1969 Annual Report, the most recent available in the record, Citizens-Delaware increased its annual dividend distribution in 1969 for the 24th time in the past 24 years. The effective dividend rate was $1.10 per share, an increase of 8 percent over the 1968 dividend rate. Finally, the exclusion by Citizens-Delaware of its two percent REA Notes from its study is unreasonable. All debt should be considered in determining the effective interest rate. After considering all the evidence, including the current lower interest rates, and recognizing the fact that the approved rates will not become effective until 1972, we conclude that a 7.7 percent rate of return is fair and reasonable. This produces an 8.57 percent return on common equity.

Applying this return to the 1970 estimated rate base of $245,300 produces net operating revenues of $18,888 or an increase of $6,440 over those at present rates. Therefore, an increase in gross revenue of $13,340 or 16.94 percent is necessary.

Quality of Service

A number of applicant's ratepayers appeared at the hearings and complained about its service. These complaints related to the hardness of the water, its poor taste, and the amount of iron in it. The latter causes staining of clothes, dishes, sidewalks and building exteriors. The poor taste is partly the result of the large amount of chlorine in the water purchased from the county. Several customers stated that they buy bottled water for drinking purposes. Similar complaints were noted by the Commission, however, in the last rate increase involving this applicant. (Decision No. 72510, dated May 31, 1967, in Application No. 48626.)

There were also some complaints charging unresponsiveness on the part of the utility's local personnel. Applicant has hired a new local operator who is apparently working to resolve this problem.

According to the staff's field investigation there were 3, 1, 15, and 14 service complaints in the years 1967 through 1970. The complaints in 1970 related to taste, odor, sand and sediment. Interviews with customers substantiated the nature of the complaints. There were no complaints regarding pressure.

The staff recommends that applicant be required to proceed with a program that will eliminate the complaints relating to hard and dirty water. It notes that such a program was not required in Decision No. 72510 because the treatment would have increased the average bill by $1.50 to $2.00 per month. The staff urges that since testimony in the phase of this consolidated proceeding involving the service difficulties of the Washington Water and Light Company in West Sacramento (Application No. 52160) indicates that less expensive methods of treatment are available, Larkfield should be directed to upgrade its service and report to the Commission as to the reduction of the iron and manganese levels in the water and as to customer complaints.

Applicant's system engineer testified that both its well water and the purchased water contain considerable iron and manganese. He further stated that with regard to its new well, if one aquifer (a water-producing stratum of rock, sand or gravel) is found which produces soft water free from these elements, Larkfield will derive its total production of that well from this stratum. If necessary, he related that applicant proposes to install equipment to treat the water from this new well with the new sodium-silicate method in accordance with its proposal for the West Sacramento system. (Tr. 717.)

The Commission agrees with the staff that some positive action should be taken to improve the poor quality of Larkfield's water. Although it may not be possible for applicant to improve the quality of its purchased water, it should take all reasonable steps to improve the quality of the water produced by its own wells. Since applicant indicates that it intends to do so anyway, it is no onerous burden that it be required to report every six months from the effective date of our decision herein through 1974 on the progress being made to resolve this problem. In view of the fact that there are apparently several possible methods for reducing the iron and manganese problem, the Commission will not attempt to prescribe the precise method by which improvement in the water quality is to be achieved, but Larkfield will be directed to develop and execute a program to improve its water. Reports on the progress of this program will be mailed to all official appearances in this proceeding. If the applicant concludes that contrary to its presentation in this proceeding it cannot improve the water quality, it shall make a full report and explanation to the Commission and parties to this proceeding.

Findings of Fact

The Commission finds that:

1. Larkfield Water Company (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water service to over 500 customers.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1970 reasonably indicate the results of applicant's operations for the future.

3. Applicant's rate of return for the 1970 test year is 5.07 percent. It is in need of additional revenues, but the proposed rates set forth in the application are excessive.

4. A rate of return of 7.70 percent on the adopted rate base for the year 1970 and return on common equity of 8.57 percent is reasonable.

5. The increases in 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 unjust and unreasonable for the future.

6. The quality of the water distributed by applicant is poor in regard to taste and odor, and it contains considerable amounts of iron and manganese which cause staining of clothes, appliances, building exteriors and sidewalks. Applicant intends to take measures to reduce this problem. It is reasonable to require applicant to do so, and to report its progress to all parties to this proceeding.

The Commission concludes that the application should be granted to the extent herein set forth, and in all other respects it should be denied.

ORDER

IT IS ORDERED that:

1. Larkfield Water Company, a subsidiary of Citizens Utilities Company of Delaware, is authorized to file the revised schedules of general metered service attached to this order as Appendix A, and concurrently to cancel its present schedule for general metered service. Such filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Larkfield Water Company is directed to develop and to execute a plan to improve the quality of the water produced from its wells with regard to taste, odor and the level of iron and manganese, and to report progress in achieving improvement in the quality of its water to the parties in this proceeding every six months after the effective date of this decision through 1974.

3. If Larkfield Water Company determines that it is not possible to improve the quality of the water as directed to do in paragraph 2 of the order herein, it shall file a report with a full explanation with the Commission, serving also all the parties to this proceeding.

4. Larkfield Water Company shall also report to the Commission every six months through 1974 its water purchases and water costs.

5. The rates authorized in Appendix A attached to this order meet the criteria established by the Price Commission of the United States in Section 300.16(e), (1)-(6) of Part 300 of Title 6 of the Code of Federal Regulations, as set forth below:

a. The former rates, or prices, are set forth on page 3 of the opinion, supra. The new rates, or prices, are set forth in Appendix A attached to this order. The percentage increase in gross revenues produced by the new rates is 16.94 percent above the gross revenues adopted for the test year.

b. The dollar amount of increase in gross revenues provided by the rates authorized herein is $13,340. The dollar amount of increase in net operating revenues provided by the rates authorized herein is $6,440.

c. The amount the increase in net operating profit will increase the applicant's profits as a percentage of its total sales is 4.71 percent.

d. The increase in the applicant's overall rate of return on rate base is 2.63 percent.

e. Sufficient evidence was taken in the course of the proceedings held herein to determine that the criteria set forth in Section 300.16(d), (1)-(4) of Part 300 of Title 6 of the Code of Federal Regulations are met by the rate increase authorized by this order. The rates authorized herein meet these criteria because the record demonstrates that under the costs of operating its business during the 1970 test year, as adjusted by the Commission's decision herein, and under the rates last authorized by this Commission in Decision No. 77751, dated September 22, 1970, in Application No. 52085, the applicant's rate of return for the test year is 5.07 percent. This level of return is less than the minimum rate of return needed to attract capital at reasonable costs and not impair the credit of applicant.

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

Dated at San Francisco, California, this 4th day of APRIL, 1972.

Chairman

Commissioners

APPENDIX A

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Larkfield Estates and vicinity, located approximately three miles northerly of the City of Santa Rosa, Sonoma County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 3.75	(I)
For 3/4-inch meter	4.10	
For 1-inch meter	5.65	
For 1½-inch meter	7.90	
For 2-inch meter	10.25	
For 3-inch meter	19.00	
For 4-inch meter	26.00	
For 6-inch meter	41.00	
Quantity Rates:		
For the first 50,000 cu.ft., per 100 cu.ft. ..	$ .285	
For all over 50,000 cu.ft., per 100 cu.ft. ...	.240	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.