

Decision No. 80398

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
LARKFIELD WATER COMPANY for authority)
to increase its rates and charges)
for its water system serving the unin-)
corporated subdivision of Larkfield)
Estates and vicinity north of Santa)
Rosa in Sonoma County in order to)
offset an increase in water rates by)
Sonoma County Water Agency.)

Application No. 53367
(Filed June 1, 1972)

O P I N I O N

By this application, Larkfield Water Company seeks authority to increase its rates for general metered service to offset the effects of increased costs of water purchased from Sonoma County Water Agency.

Applicant is a corporation duly organized and existing under the laws of the State of California, and is a wholly-owned subsidiary of Citizens Utilities Company, a Delaware corporation. Its principal place of business is located in Sonoma County, California.

Applicant owns and operates a public utility water system in an unincorporated area of Sonoma County, California, furnishing water service to 633 metered customers, one private fire connection and 45 public fire hydrants as of December 31, 1971.

Applicant's present meter rates became effective April 24, 1972, by authority granted in Decision No. 79915, dated April 4, 1972. A schedule showing the presently effective rates in the area served by applicant, which are proposed to be increased, is set forth in Exhibit B attached to the application.

According to applicant, in Decision No. 79915 the Commission concluded that the rates authorized therein could be expected to produce an average annual rate of return of approximately 7.7 percent which it found to be reasonable for applicant at that

time. Since the date of that decision the rate under which applicant purchases water from the Sonoma County Water Agency has been increased from \$78 an acre-foot to \$83 an acre-foot, to become effective July 1, 1972, by Resolution No. DR-36881. The effect of this increase, based on the purchased water used by the Commission in Decision No. 79915, is to increase applicant's cost for water by approximately \$1,210. Attached to the application as Exhibit E is a computation of the difference in purchased water expense, based on the purchased water rate effective at the date of Decision No. 79915 and the rate effective July 1, 1972. Applicant claims that its earnings, summarized in Exhibit D attached to the application, will result in a substantially lower rate of return than that authorized by the Commission in Decision No. 79915 unless it is granted its proposed rate increase.

An engineer from the Commission's staff conducted an independent study of applicant's request. The results of the engineer's study are contained in a report dated July 17, 1972. This report is received as Exhibit 1 in this proceeding.

Exhibit 1 contains the following:

- a. Applicant has based its request for a \$1,210 offset increase on the quantity of purchased water adopted by Commission Decision No. 79915 for 1970 but the operating conditions changed in 1971. In 1971 applicant purchased less water from Sonoma County than it did in test year 1970 due to the construction of a new well. The good earnings shown in the next paragraph indicate that the new well may be producing water at less cost than water can be purchased, which was applicant's contention in justification for the new well.
- b. The earnings which would be produced under the conditions set forth in the application would exceed the previously authorized 7.7 percent rate of return. Staff adjustments in the following summary of earnings for 1971 include revenues for the entire year at rates

authorized in April of 1972, Administrative and General Expenses reduced for Stamford charges to the staff basis in the last general rate proceeding and ad valorem taxes based upon those recorded for 1971.

<u>Operating Revenue</u>	\$ 98,500
<u>Operating Revenue Deductions</u>	
Operation & Maintenance Expense	29,140
Administrative & General Expense	6,820
Depreciation	12,450
Taxes Other than Income Taxes	11,840
Taxes on Income	15,080
Total Operating Revenue Deductions	75,330
<u>Net Operating Income</u>	23,170
<u>Average Rate Base</u>	285,200
<u>Rate of Return</u>	8.12%

Based upon the above, the staff recommends that the application be denied.

Findings and Conclusion

The Commission finds that:

1. Staff's estimates, previously discussed herein, reasonably indicate the results of applicant's operations for the future and are adopted.
2. Applicant is not in need of additional revenues.
3. A public hearing is not required.

The Commission concludes that the application should be denied.

O R D E R

IT IS HEREBY ORDERED that Application No. 53367 is denied.

Dated at San Francisco, California, this 29th
day of AUGUST, 1972.

Vernon L. Sturgeon
President
William Aguirre

Tom Han
Ed Del
Commissioners

Labstue

J. P. Horan Jr., Commissioner.