

ORIGINAL

Decision No. 81162

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 areas of Montara, Marine
View, Farallone City, Moss Beach and
adjacent territory in San Mateo
County.

Application No. 49023
(Petition for Modification
filed May 10, 1972)

John H. Engel, Attorney at Law of New York and
Maryland, for Citizens Utilities Company of
California, petitioner.

Sylvia M. Siegel, for Mrs. Herbert Kraencke;
Cecelia S. Goldthorpe, for Resident, Sea Urchin
Children's Center, Moss Beach Rehabilitation
Hospital; Joseph A. Miles, for Point Montara
Fire District; David V. Cresson, Ray E. Downen,
and Mrs. Jan McClure, for themselves; pro-
testants.

E. Sherman Coffman, for San Mateo Local Agency
Formation Commission; Henry A. Dietz, Assistant
District Attorney, for the County of San Mateo;
and James M. Cook, for Point Montara Fire District
and himself; interested parties.

Rufus G. Thayer, Jr., Attorney at Law, and John E.
Johnson, for the Commission staff.

O P I N I O N

After due notice, hearing was held on this petition for
modification before Examiner Coffey in Montara on August 21, 22, 23,
September 6 and 7, 1972. The matter was submitted on September 26,
1972 upon the receipt of the reporter's transcript.

Citizens Utilities Company of California (Citizens) requests
an order authorizing it to file the rate schedule annexed to Decision
No. 77212 as Appendix B, or in the alternative, requests an order
modifying Decision No. 77212 to authorize it to file said rate
schedule.

History of Proceeding

After four days of hearing at Montara and the receipt of evidence at various locations on 8 days in 1968 and after considering an examiner's proposed report, Decision No. 77212 was issued on May 12, 1970.

Decision No. 77212 authorized increased rates estimated to increase operating revenues by about \$12,000 and produce a 5.53 percent rate of return on the rate base in the test year 1968.

Decision No. 77212 states:

"When applicant has upgraded service to its customers in this district and demonstrated it to the satisfaction of this Commission, a 7.2 percent rate of return on rate base would be reasonable. (Page 12.)

"The value of service and its lack of improvement have been considered in the determination of the initial rate of return to be allowed in this proceeding.

"The order which follows will provide additional revenues should applicant complete within a two-year period the 'backbone' transmission main and additional storage facilities approximating \$100,000 recommended by the staff (TR 299-300). The additional annual revenues will be about \$31,300 based upon the 7.2 percent rate of return previously found reasonable and the estimated additional ad valorem taxes and depreciation on plant investment associated with the improvements." (Page 15.)

Thereafter, Ordering Paragraphs 2 and 3 of the decision provide as follows:

- "2. In the event applicant undertakes to install plant improvements described on pages 299-300 of the transcript, it shall file in this proceeding a detailed plan of construction to implement such improvements, including pipe and storage tank sizes, amounts and types of materials, locations and estimated costs of construction, together with estimated dates of completion.

Upon undertaking such construction, applicant shall, within fifteen days after the end of each month until completion of such construction, file a progress report showing the cumulative net dollar amounts expended for each plant item described in applicant's plan.

- "3. Upon completing the requirement of Ordering Paragraph 2 before June 30, 1972, and upon receiving further authorization of this Commission by supplemental order herein, applicant Citizens Utilities Company of California may file for its Montara District the revised rate schedule attached to this order as Appendix B. Such filing shall comply with General Order No. 96-A. The revised schedule shall apply only to service rendered on and after the effective date thereof."

Exhibit No. 11 sets forth the staff recommendations made in 1968 for improvements and facilities:

"In approximate order of importance, and within the next three to five years, the following improvements to system operation and facilities are recommended:

- a. The systemwide problem of inadequately sized mains will have to be solved by a program of replacements over the years. Until this is done, occasional problems of insufficient supply will occur, especially during times of needed fire flow. Booster pumping may be necessary to satisfactorily transmit water throughout the system.
- b. The dirty water problem may be solved by several methods, which should include as a minimum, operation of upstream settling and screening basins, diversion of roily water during rains, and routine system flushing.
- c. The low pressure area, which is that part of Moss Beach about one-half mile west of Half Moon Bay airport, normally receives about 30 psi pressure. The pressure does drop at times, however, and a deficiency of water supply occurs because the 2-inch and smaller mains have insufficient capacity for the number of customers served. Besides replacing these mains, the pressure in this problem area could be raised by about 25 psi by allowing the Moss Beach high elevation system to serve the area.
- d. In connection with items a. and c., storage should be developed in the south end of the system, as soon as practicable."

On pages 299-300 of the transcript the staff witness testified as follows in response to a question from the examiner and from staff counsel:

"EXAMINER COFFEY: Mr. Epolt, do you have any idea of what the capital increments would be to implement your recommendations?

"MR. MCCARTHY: Well, I was just going to ask that question. We have discussed that and that is what I want to add to our question, Mr. Commissioner, is a figure that would estimate the increase of size of the mains to what you believe is adequate size. And secondly, improve the storage situation.

"THE WITNESS: Well, I would say first that in order to put in this 8-inch transmission main to connect the system from one end to another, it looks like it would require, about, say, 10,000 feet of main. And if we used a figure, round figure of \$7 a foot, there would be, say, \$70,000.

"And, if we put in, say, 200,000 gallons of storage, that may cover another \$25,000.

"And maybe booster pump or pumps may include, say, another \$5,000.

"I would say for \$100,000 the system would be vastly improved.

"However, this would not replace all these other mains that would be off the path of the transmission line. So there would still be other work to be done. But I would say with this \$100,000, this system certainly would be greatly improved with the fact that the company would produce water in any part of the system as the demand occurred.

"At the present time, they certainly cannot."

By letter of March 24, 1971 Citizens, as compliance with Ordering Paragraph No. 2, submitted its preliminary plan of construction to implement such improvements and requested that the Commission staff advise of its concurrence with the plan. The purpose of the letter was stated as follows:

"Before detailed planning for individual projects is commenced, and contracts for construction executed, it is considered essential to obtain the Commission Staff's concurrence in the improvement as generally proposed and their assigned priority. Our plans call for the completion of as many of the following listed projects, in the priorities as listed, as is possible within the approximately \$100,000 estimated construction cost testified to by the Staff representative in the proceedings in Montara."

Projects included were:

1. Drilling two test holes, one in the airport area and one in Wagner Valley, and a final production well, including pump and related facilities \$30,000
2. Improvement of pressure in Marine View area by connecting distribution mains in area to upper pressure zone installing 500 feet of 6-inch main and pressure reducing valve \$ 4,500
3. System "back-bone" of 8-inch or equivalent main from north to south end of system, consisting of:
 - a. Reline 12,500 feet of 8- and 10-inch main \$45,000
 - b. 1,000 feet of 8-inch main in Farallone Street \$ 9,000
 - c. 800 feet of 6-inch main in Third Street \$ 6,400
 - d. 900 feet of 6-inch main in Harte Street \$ 7,200
 - e. 650 feet of 6-inch main in either 6th, 7th, 8th, or 9th Street \$ 5,200
4. Replace 500 to 1,000 feet of existing spring supply line \$2,500 to \$5,000

The above projects were estimated to cost from \$109,800 to \$112,300.

In reply to the letter of March 24, 1971, the staff commented as follows:

"All of the items proposed, and their order of priority, are system improvements reasonably consistent with those suggested in Decision No. 77212, in Application No. 49023. It should be noted, however, that additional storage of 200,000 gallons was contemplated by the decision whereas your proposed improvements specify new water supplies in lieu of such additional storage.

"A review of the transcript indicates that the local fire protection agency chief was much concerned by minimal fire flow and absence of water at several hydrant locations during fire drills and actual fire calls. Though this problem would probably be lessened by your improved piping and supply proposals, your system presently has no storage in its southerly portion.

"The staff suggests that you proceed with the proposed improvement program. In connection with subsequent studies for other improvements, it is suggested that consideration be given to the achievement of a balance between additional water supply, storage, and distribution capability."

On July 14, 1971 Citizens filed the first of the ordered monthly reports and advised that project 3.c. above had been changed to an 8-inch main on 8th Street to connect to an existing 8-inch main and that project 3.e. would be installed on 8th Street. Further progress reports were filed on August 9, 1971 and on September 15, 1971. The September 15 report set forth approximate costs to date amounting to \$102,634 and requested a supplemental order authorizing increased rates. On September 27 the staff advised Citizens as follows:

"The Commission order shows that the utility was required, among other things, to install additional storage. Your letter of March 24, 1971, contemplated substituting a well in the Wagner Valley area (Item 1 of your letter) for additional storage. Our letter of March 29, 1971, asked that consideration be given to the achievement of a balance between additional supply and storage. Your letter of September 15, 1971, indicates that the well that was drilled is of insufficient capacity to meet the requirements of the order and that no new well site is presently available in the airport area, where existing wells are located. There is no mention of additional storage having been constructed or contemplated.

"A review of your compliance record herein indicates that while you have apparently made the contemplated amount of expenditure, you have not met the intent of the order. The staff is of the opinion you have not complied with ordering paragraph 2 and hence cannot recommend authorization at this time of a supplemental order making effective Appendix B rates of Decision No. 77212."

On February 23, 1972 Citizens reported the total cost of the completed projects to be as follows:

<u>Description</u>	<u>Amount</u>
500 ft. 6" A.C. main on Cypress Street	\$ 8,847
Reline 12,500 ft. of main, Highway 1	52,025
4,000 ft. 8" A.C. main on Farallone, Audobon, and Harte Streets	42,383
1,000 ft. 6" D/W steel pipe in spring line..	<u>2,443</u>
Total	\$106,225

Additionally, Citizens reported the completion of a well in Wagner Valley which had been test pumped at 180 gallons per minute (gpm) and was to be equipped to produce approximately 150 gpm. Again by letter Citizens requested authorization of Appendix B rates. On March 9, 1972 the staff replied as follows:

"Decision No. 77212, as a condition precedent to Appendix B rates, requires the installation of additional storage capacity in the southernly portion of your system. This installation has not been undertaken. Your letter, and discussions with Mr. Stradley, indicate that the company believes additional storage is not necessary. Since other related improvements have been made, the staff does not agree with this conclusion.

"Should you desire to pursue this matter of deviation from the order, it would be necessary for you to petition for a modification of ordering paragraphs 2 and 3 of said decision. Technical justification should be included for any modifications proposed."

Thereafter, Citizens filed on May 10, 1972 the petition for modification now being considered.

Past Service

Decision No. 77212 summarizes the service problems in the Montara division as follows:

"A sampling of public sentiment taken during the morning of the first day of hearing, when about 60 members of the public were in attendance, indicates that all members of the public present were protesting the rate increase, that one or two had good quality water and do not have service problems, and that all other customers present had service problems.

"This record is replete with testimony by customers regarding high, low and fluctuating pressure problems; of black, brown, milky, rusty, oily, sandy and just plain dirty water; of worms in the water; of chlorine taste and odor; of main leaks being unattended for extended periods; of streets and residences being flooded by broken mains; of streets being opened and left for extended periods as chuckhole traffic hazards; of personnel without knowledge or maps of shut-off valves; of meters being unread and of periodic gross overbillings; of difficulties in contacting utility personnel to report troubles; of poor public relations; of shutting off water without adequate notice and of inadequate water supply.

"A representative of the local fire district testified that fire hydrants were not being satisfactorily maintained, it not being possible to open a number of hydrants. He criticized the water supply as inadequate as the result of small pipes and storage, giving as examples the supply of an 8-inch main through a one-inch main and 15 homes being supplied through a 1/2-inch pipe. He indicated that the construction was piecemeal without installing important items needed to complete the system, and that there had been no improvement in the water service for ten years since the recommendations of local personnel are generally not approved by management. The fire district believes it is paying for hydrant service which it is not receiving and requests a reduction in hydrant rental and authorization to maintain the hydrants. Applicant and the district agreed to consult on these problems but the record does not indicate any solution. The staff recommended a change in the tariff for public fire hydrant service, relating the tariff to the size of the serving main rather than to the size of the hydrant. We will authorize the proposed tariff which has provisions for utility-owned-customer-maintained service as requested by the district. Since the revenue effect of this tariff change is speculative, no revenue effect will be reflected in the results herein adopted.

"Despite direction by the presiding examiner, applicant did not satisfactorily avail itself in this record of the opportunity to investigate the many service complaints contained in this record and to report thereon. Applicant generalized that it had had personnel problems and that it expected conditions to be better in the future. It did explain its posted office hours, telephone arrangements and the cause of 'milky' water, but the bulk of the complaints are without answer in this record.

"The staff investigation disclosed conditions which gave rise to the foregoing complaints, and the staff witness made a number of general recommendations for improvement of the system operation and facilities within the next three to five years. If applicant were to undertake such improvement program it is likely that many of the service deficiencies would be alleviated. Applicant has the sole responsibility for the service it renders and it cannot escape that responsibility by claiming 'personnel problems'."

Applicant's Presentation

Witness for applicant testified that virtually all of the improvements previously outlined herein have been completed. The improvements have increased water pressures, have decreased variations in pressure between periods of minimum and maximum use, improved the quality of water by replacing old and rusty pipe, and made more water available to the system by the pipe relining and spring line replacements which eliminated some bad leaks. Additional water supplies made available to the entire system from the new Wagner Valley well offset the diminished spring water supply resulting from the unusually dry period during the past several years. This dry period has also resulted in lowering of the water table in the area, adversely affecting Citizens' wells.

Between the date Decision No. 77212 was issued, May 12, 1970, and March 24, 1971, when Citizens first submitted its improvement plan, Citizens completed improvements which cost approximately \$22,000. Citizens has expended \$120,578 for the system improvements set forth in its plan of construction submitted March 24, 1971. In addition to the above amounts, Citizens has installed, or plans to immediately install, improvements which cost approximately \$25,000.

Applicant's witness testified that in connection with a study that was made (but not presented in this proceeding), it was determined that a well would be of more benefit to the system than a storage tank on the premise that a storage tank is useless if it does not contain water. The construction of the Wagner well rather than an additional storage tank was supported by the witness because the additional storage would not have provided sufficient water when the existing wells were out of service. The witness also testified that there are no sites in the lower part of the system where a tank could be constructed that would do the job that was described on pages 299-300 of the transcript. Assuming availability of a site, the cost of an elevated tank was estimated to be from \$150,000 to \$175,000. The cost of a tank and a booster that is not elevated was estimated to be from \$50,000 to \$55,000.

Staff Presentation

A staff witness presented a report on Citizens' petition for modification of Decision No. 77212. The report summarizes the improvements installed by petitioner as follows:

Major Plant Installed in 1971 and 1972

a. 500 ft. 6-inch A.C. main, Cypress between Etheldore & Highway 1, and pressure regulator	\$ 8,900
b. Cement lining of 12,500 ft. of 10-inch steel main between airport wells and "school tank" ...	52,000
c. 4,000 ft. 3-inch A.C. main replacing 2- and 4-inch mains in Farallone, Harte, Audubon and Eighth Streets	42,900
d. Replace 1,000 ft. 6-inch steel main, from spring diversion dam toward Montara reservoirs..	2,400
e. New Wagner Valley well and pump	<u>11,000</u>
Total	\$117,200

The report states that:

"Items 'a', 'c' and 'e', above, are clearly of a type intended by Decision No. 77212. Items 'b' and 'd' are of less direct effect in improvement of service as to pressure and efficient distribution of the water supply.

"Although petitioner has added to its rate base in an amount approximating that contemplated by Decision No. 77212, the specific improvements do not include additional storage facilities recommended in the decision. The approximate equivalent of such storage has been accomplished, however, in the installation of the 6-inch Cypress Street connection, main and pressure regulator. This installation results in the connection of all existing gravity storage to the higher Moss Beach area west of Highway 1. The nearest reservoir is connected to this area by about 7,000 feet of 6-inch and smaller mains. Minimum static pressure in the area is about 35 psi."

Inspection by the staff witness of surrounding terrain in the southerly portion of the service area revealed no suitable site for construction of local ground-level storage on high ground. An elevated tank, a feasible alternative, would be close to the airport and might have an adverse aesthetic effect on the area. The witness testified it would be possible to erect storage facilities at ground level, using a booster pump to deliver the water locally. However, the witness equates the 6-inch main set forth as item "a" above as being equivalent to such pumped storage.

During July 1972, the staff contacted several of the customers who gave testimony regarding quality of service at the September and October 1968 hearings in Application No. 49023. The staff report states that to a limited extent these customers indicated that service had been improved during the past year with regard to pressure but that the water still contained "dirt".

The staff report draws the following conclusions:

- (a) Petitioner has installed system improvements generally equivalent as to type and cost anticipated by Decision No. 77212, upon which Appendix B rates thereof were contingent.
- (b) Petitioner's results of operation, including 1971 and 1972 increased plant and related fixed costs, would not be likely to produce a rate of return in 1972 of more than 7.2 percent, as found reasonable for improved service per Decision No. 77212.

- (c) Quality of petitioner's service in its Montara district has been improved as to pressures in the southwesterly portion of its service area.

Public Presentation

Of the twenty-two members of the public who presented evidence, seventeen complained variously of the quality of the water, of low water pressure, of lack of water flow, of chemicals in the water, of lack of notice of planned water outages, of bills based on unread meters, and of poor relations with the utility.

The results of a professional survey made by a marketing research company indicated that 31 percent of the customers had water quality problems in that the water served them was "dirty", "muddy", "sandy", "yellow", "brown", "soapy", "bubbly", had poor taste or smell, or that it contained too much iron or minerals. About 10 percent of the customers indicated they had problems with service in that water was shut off without notice, or that they had low pressure, or that the lines were in poor repair. Of those surveyed, 54 percent said the price of the water was much higher than that of other companies while 13 percent thought that the price was the same or lower than that of other companies.

While most of the public witnesses opposed the requested increase in rates, one testified she had no problem with the utility, that she knew her meter was read, and that she was otherwise satisfied with her service. She suggested a connection fee for new services to equalize the burden of growth. A witness testified on the availability of locations for tanks.

The executive offices of the Local Agency Formation Commission requested that no increase in rates be allowed until the agency has established which public agency could best provide service to the entire Half Moon Bay basin, including Citizens' service area, and until it can be established that Citizens will have an adequate

source of water in the future. The witness testified that his commission and Supervisor Jean Fassler had received a large number of complaints concerning the adequacy of water flow, quality of water, and the cost of water.

An assistant district attorney with the county of San Mateo restated the concern of the Board of Supervisors with the magnitude of the authorized rate increases and advised that title to water from Well No. 1 and Well No. 2 at the airport is in dispute at the present time.

The operator of a nursery school and a hospital complained of water being turned off at the nursery school without notice and of excessively hard water at the hospital. Despite statements that people across the highway from the school had received notice of proposed outages, the witness was unable to locate anyone on her side of the highway who had received notice. It appears company personnel forgot to advise the school of the proposed outage.

Notices of outages have been given to the hospital since it opened two years ago. Water to the hospital, apparently from the airport wells, is brackish and muddy. Mixing valves have been replaced four times in 12 months, heating elements fail due to scaling from the hard water, faucet screens are clogged in patient rooms, and screens in dish washing machines frequently disintegrate. Using double amounts of soap, grease and other soil cannot be removed from kitchen aprons, rags, and bedding. The water hardness is lower in the early morning when water from the Wagner wells enters the lower portion of the system at night. The hardness of the water ranges from a measure of 9 in the morning to 10.5 at midday and as high as 14 at 5:00 p.m. The hospital is required to have a water softener for water hardness measuring 8, but equipment and chemical manufacturers advising the hospital say that its water problems cannot be solved unless the hardness measures less than 8.

A representative of the Point Montara Fire Protection District reported on the quality of maintenance of fire hydrants rented by the district from Citizens and maintained by Citizens. Of a total of 48 hydrants surveyed, 15 had at least one unusable outlet because of a corroded cap or a stuck valve. In five of these hydrants all of the outlets were unusable. Five other hydrants were so obscured either by weeds, trees, or domestic plantings that they would be very difficult to locate in the dark. Thus, only 28 of 48 hydrants were fully usable and visible from a reasonable distance. Twelve of the 48 hydrants are subject to being obscured by parking along the streets. On 15 of the hydrants, 360 degree turns on the valves or caps cannot be made because of weeds or dirt mounded at the base.

The chief of the fire district testified that only the 500-feet of 6-inch main, the pressure regulator, and the well and pump improve service; other changes, amounting to \$97,300, are strictly for maintenance. The chief also complained that Citizens had not permitted static flow and residual tests on the water system for the purpose of extending fire zone classifications in order to lower insurance costs in the area. Lack of sufficient water supply until completion of the Wagner well and the possible disruption of the system by tests which would create a tremendous amount of sediment and mud in the lines appears to be the cause of delay in performing the tests.

Applicant's Service Presentation

Applicant's general manager of water operations and its systems engineer testified in answer to the complaints voiced at the hearings. A summary of applicant's presentation follows.

The cause of the complaint regarding the "milky" water was attributed to certain wells, particularly the two airport wells, breaking suction due to the lowering water table. Under these conditions, air is pumped into the distribution mains where it remains until released through a faucet. The witness indicated that

the problem had been alleviated by recently cutting down on the production of the wells so that they do not break suction.

The cause of the complaint of the "detergent" or "slick" feeling of the water was attributed to the much softer quality of the water from the new Wagner well.

In response to complaints of meters not being read, applicant, after reviewing records and consulting with local personnel, could find no basis for the complaints.

In response to complaints of low pressure, applicant made static and residual pressure measurements. The pressures complied with the requirements of General Order No. 103. In one instance, a partially closed gate valve in the customer's service was found. In another instance, the possibility of a low setting of the customer's pressure regulator was suggested.

In response to a complaint that copper sulphate was used to kill algae in the water, a San Mateo County Department of Public Health and Welfare report of analysis of a water sample taken in November 1971 indicated that no heavy metals were present.

A recent water analysis indicates that water from the airport wells had a hardness of 171 ppm and that water from the springs and Wagner No. 3 wells had a hardness of 84 ppm. The former was considered to be in the lower portion of the hard water range and the latter to be in the middle of the moderately hard range as established by the American Water Works Association.

Samples of water taken at the homes of various complainants were presented. Generally, the water appeared clear but contained small amounts of a grainy material and/or short floating translucent fibers.

Applicant has been waiting for the fire district to comment on its proposed service and maintenance agreement, Exhibit No. 5, since November 1971.

Applicant inspected the five fire hydrants reported to be totally inoperative and found them all to be easily operative.

In response to complaints of lack of notice of planned outages, applicant stated its policy was to notify customers of planned outages.

Discussion of Service Problems

From the presentations by the public it appears that applicant has not been able to convince its customers of the excellence of its service. Nor are the presentations by applicant in this proceeding convincing that applicant has been diligent in rendering reasonable service even considering the difficult circumstances of an old system with supply problems.

This record does not explain why the problem of "milky" water has been neither timely corrected nor adequately explained to its customers. This problem was brought to applicant's attention by complaints at the hearing in 1968. While it is true the condition is not harmful to health, the customers are not expert in such matters and need to be advised and reassured by applicant when such conditions are permitted to persist.

Applicant's testimony on the quality of water produced by the new Wagner well is confusing. On page 392 of the transcript applicant attributes the detergent or slick feeling of the water to "the fact that the new Wagner well produces water of a much softer quality than had previously been experienced within the system". At page 404, applicant characterized the water from the Wagner well as being in the middle of the moderately hard range.

A number of customers complained of pressure problems. Applicant investigated these complaints and reported the static and residual pressure measurements. The pressure gauge typically was attached to the customer's service at the entrance faucet, and a rear faucet was opened to measure residual pressure and water flow. To have validity in establishing responsibility for water line restrictions, such measurements assume that the utility's mains, services,

and meters do not contain restrictions which substantially limit the flow of water. Since substantial portions of the applicant's system are restricted, either by size or by deposits, spot pressure measurements at times of off-peak demand and at the entrance faucet are not persuasive that the cause of the complaints is usually in the customer's plumbing. Customers are concerned with having an adequate flow of water available simultaneously from more than one faucet at a time. In view of the condition of applicant's system, it is a minimum requirement that applicant clearly demonstrate to its customers, at the meter outlet, the availability of adequate quantities of water at an adequate pressure at all times. Such a demonstration can be made by static and residual pressure and flow measurements at the meter. These measurements are easily made with simply constructed test adapters.

In 1968 a number of customers complained of bills being rendered when meters were not read. Again, in this proceeding the complaints are repeated. Applicant's tariffs require that a billing based on an estimated reading be designated on the bill with an "E". This record established that a number of billings were based on estimated meter readings, but none of such billings were designated as required by the tariffs. There can be no doubt that some meters have not been read when the meters are covered with dirt or the box is flooded with water. We are unable to give credence to applicant's testimony that meters are being accurately read.

We note that this record contains no denial by applicant that it used copper sulphate to control algae growth. Applicant's presentation of a county analysis indicating no heavy metals merely substantiates complainant's testimony that the practice was stopped after her complaint and that a county report of a sample taken thereafter indicated negative results. If potentially harmful additives are necessary to restore the quality of the water and are permitted by responsible public health departments, applicant as a minimum should advise its customers of the time and duration of the water treatment.

Despite the fact the water quality may meet state and county health requirements and may in no way be detrimental to health, so long as the water served by applicant even on occasion contains sand, scale, suspended material, or other matter, it is the duty of a utility to periodically advise its customers of the cause of the problem, what is being or can be done to correct the situation, and generally give assurance that use of the water is not a menace to health. Applicant should always be mindful that as an experienced water system operator, applicant must allay its customers' fear of water of poor quality. Water of poor quality and low aesthetic appeal is water of low economic value.

Applicant would have the Commission believe that the problem of poor fire hydrant maintenance arose because the fire district had not promptly commented on its proposed service and maintenance agreement, and because fire department personnel do not know how to open hydrant caps and valves. The chief of the fire district testified that he neither recalled seeing Exhibit No. 5 nor could find such an item in his files. We can only conclude that, even if the document had been given to the district approximately 18 months after the problem of hydrant maintenance had been discussed in Decision No. 77212, applicant has not been diligent in the resolution of this problem. The burden of the resolution of service problems rests with the utility, not with its customers.

The fire district representative testified that he had "literally stood on the end of the hydrant wrench to apply enough pressure to break the corrosion seal". Applicant after a 30 minute inspection of the five totally inoperative hydrants testified, "And, as any housewife knows, you have to tap the edge of a pickle jar to get the lid off, and the same way you have to do with hydrant caps on fire hydrants." What applicant did not disclose was that after the inspection of the hydrants fire district personnel had worked several days servicing the hydrants to make them operative. We can only conclude that the fire district is performing maintenance which should be performed by applicant for which applicant charges in its rates.

In both these hearings and those in 1968, customers complained of lack of notice of planned outages. Applicant cannot shift the responsibility for the demonstrated lack of notice of planned outages to its contractors working on water mains. Applicant's responsible personnel should be informed of all planned outages and it is applicant's responsibility to see that its customers are notified of all planned outages.

Accelerated Depreciation

Based on a recent decision of the California Supreme Court, City and County of San Francisco v Public Utilities Commission (1972) 6 C 3d 119, a representative of a protestant moved that applicant's rates be set imputing accelerated depreciation.

The parent of Citizens now uses for its California operations the straight-line total life method in determining depreciation accruals in computing income taxes. During the period 1954 to 1958, inclusive, the parent company elected to adopt, and used, liberalized depreciation in calculating income taxes applicable to California operations. For its consolidated 1966 federal income tax return, the parent company did not use liberalized depreciation for income tax purposes for California properties, although it did so for seven of the nine states wherein it operated public utilities.

The proposed report in this proceeding, issued November 14, 1969, computed income tax expense for the test year 1968 as though applicant had taken 1968 liberalized depreciation in all plant qualified by law. The effect of applicant refusing to avail itself in California of the income tax provisions for liberalized depreciation was determined in the proposed report to add \$8,750 to the revenue requirement. Decision No. 77212 did not include an adjustment assuming the use of accelerated depreciation for tax purposes in the test year.

The issue of imputing liberalized depreciation in computing income taxes for the purpose of setting rates is presently before the Commission in the rehearing on Decision No. 79367 issued November 22, 1971 on the request of the General Telephone Company for increased rates, Application No. 51904, and will be further considered in the request of The Pacific Telephone and Telegraph Company for increased rates. In those proceedings the issue will be decided after testimony in depth and complete briefs. Inasmuch as the record in this proceeding is not complete enough for the disposition of this issue, protestant's motion is denied. Our decision in this proceeding merely implements Decision No. 77212 and should not be construed as a policy decision on the treatment of accelerated depreciation.

Position of Customer Representative

The representative of several of the customers argued that, while there is testimony of improvement in the water system, in fact nothing had been done more than that required by the normal maintenance expected of any water company. A great deal of regular maintenance still needs to be done. Applicant is not entitled to a rate increase because it has not satisfactorily complied with the requirement of Decision No. 77212 to install an additional storage facility and because it is not adequately maintaining the system.

Position of Staff Counsel

The staff report tends to confirm that certain improvements have been completed by applicant, but it does not take a position as to whether service has improved sufficiently to warrant the implementation of Rate Schedule B. Staff counsel suggests that the Commission should consider whether the service has been improved sufficiently to warrant a rate increase, whether the new well, in lieu of additional storage capacity, satisfies the requirement of Decision No. 77212 and whether the new supply, in lieu of additional storage, has significantly improved system service or whether

an alternate supply source is urgently needed to maintain present supplies and to improve a deteriorating supply situation. Staff counsel suggests that consideration be given to applicant's attitude of service since the record reflects the lack of a plan of systematic maintenance and improvement.

Position of Applicant

Applicant sees the issue of this case as whether it has complied with the conditions precedent to granting Rate Schedule B. Applicant contends that it complied with the conditions by installing the well in lieu of additional storage.

Applicant maintains that the record clearly establishes that the well is a feasible alternative to storage, that it is an absolute necessity, and that there is no way of complying with the order to install storage in the south end of the system because of the lack of a site for the project. Applicant has made capital improvements since the last hearing amounting to \$164,506, of which \$120,578 relates to items set forth in the plan of construction submitted to the Commission. These amounts exceed the \$100,000 contemplated by the Commission. Finally, applicant asserts that many of the complaints testified to during the proceeding were not concerning conditions that still exist, but were a restatement of occurrences that had been discussed at the hearings in 1968.

Findings

1. Storage facilities in the southern section of applicant's system in San Mateo County are needed to improve pressure to minimize service outages and to improve the quality of water by providing a means of mixing water from airport wells with softer water.
2. The water table has recently dropped at airport wells.
3. The water from airport wells is progressively increasing in hardness.
4. The availability of water from airport wells is in jeopardy.

5. Applicant's available supply of water is not sufficient to permit adequate flushing of the system.

6. Applicant's supply of water has been inadequate.

7. The new Wagner well was needed to maintain an adequate supply of water.

8. The new Wagner well is not an acceptable substitute for storage.

9. Decision No. 77212 specifies that applicant must complete the required plant improvements prior to June 30, 1972.

10. Applicant has neither completed the required plant improvements prior to June 30, 1972 nor has applicant timely requested the modification of Decision No. 77212 prior to the installation of the proposed substitute for required storage facilities.

11. Applicant has improved its water service as to pressures in the southwesterly portion of its Montara district since May 12, 1970.

12. Applicant has made capital improvements amounting to approximately \$164,506 after the 1968 hearings and prior to May 12, 1972.

13. Decision No. 77212 contemplated that Rate Schedule B attached thereto would be implemented after applicant had upgraded service by promptly installing plant additions amounting to approximately \$100,000.

14. Petitioner's results of operation, including 1971 and 1972 increased plant and related fixed costs, will not produce a rate of return in 1972 of more than the 7.2 percent found reasonable for improved service in Decision No. 77212.

15. Service has been sufficiently improved and maintained by recent plant additions to warrant implementation of Rate Schedule B of Decision No. 77212.

16. Service in the Montara district continues to be deficient.

17. Applicant does not have a systematic plan to maintain and improve the Montara district water system.

18. Applicant's communications and relations with its customers are deficient.

19. Applicant's methods of investigating pressure complaints are deficient.

20. Applicant does not take care that meters are reasonably read prior to billing customers.

21. Applicant relies excessively on estimated bills.

22. Applicant does not comply with its tariffs by identifying estimated meter readings on customer bills.

23. Applicant does not adequately maintain fire hydrants.

24. Applicant does not take care that customers are given reasonable notice of planned service interruption.

25. Applicant has used chemicals to control algae growth without notice to its customers.

26. It is not possible to determine from this record if the storage and water supply in the Montara district is reasonably adequate or of the best available quality.

Decision No. 77212 dated May 12, 1970 provides that when applicant completes specified plant improvements it may file revised rate schedules which will increase its annual revenues by \$31,300 and found a rate of return of 7.2 percent reasonable when applicant's service was upgraded. Under these circumstances, Rule 23.1 of the Commission's Rules of Procedure does not apply.

Conclusion

Applicant should be authorized to file Rate Schedule B of Decision No. 77212.

Applicant has the sole responsibility for the service it renders. We are aware that this system is old and has many deficiencies which will be expensive to eliminate. Applicant should develop a comprehensive plan to renovate its system, determine the costs of a program of renovation, implement the program of renovation, and improve its public relations and communications with its customers. Applicant has demonstrated in its Inverness system that it can accomplish all of these objectives. After such improvements, consideration of a rate increase is appropriate.

O R D E R


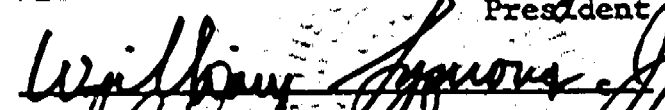

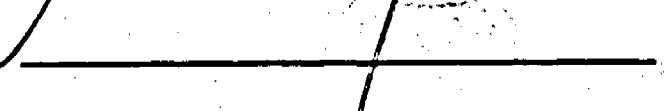
IT IS ORDERED that after the effective date of this order Citizens Utilities Company of California is authorized to file the revised rate schedule attached to Decision No. 77212 as Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 20th day of MARCH, 1973.

I dissent:


Commissioner


President



Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

COMMISSIONER J. P. VUKASIN, JR., CONCURRING.

Sound regulation requires that a utility shall provide the best possible service to its customers and in return it shall be entitled to earn a reasonable return on its investment.

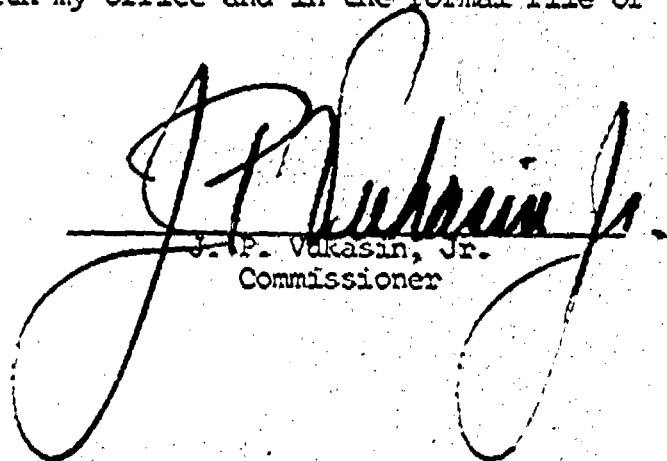
It is obvious from the testimony and exhibits in this proceeding that the Citizens Utilities Company of California (Citizens) is not now furnishing the best possible water service to its customers in the areas of Montara, Marine View, Farallone City, Moss Beach and adjacent territory in San Mateo County.

I recognize that Citizens has expended over \$164,000 in an attempt to upgrade its system since Decision No. 77212 was signed by this Commission on May 12, 1970. Recognition must be accorded to the improvements and modifications made by Citizens to its plant and facilities. While the applicant did not adhere strictly to the ordering paragraphs in Decision No. 77212, nonetheless Citizens has made a "good faith" effort, expending considerable sums of money, achieving substantial compliance with our previous recommendations. Unfortunately, the endeavor by Citizens has not been completely successful. It is not providing the best possible water service to its customers in San Mateo County.

Citizens must continue to dedicate its personnel and funds to further improve its system and to alleviate the complaints of its customers. The goal for Citizens and for this Commission must continue to be one of excellence in service and reasonableness in rates.

Therefore, the Secretary of the Commission is requested to send a copy of the immediate decision and also a copy of Decision No. 77212, dated May 12, 1970, to the personal attention of the president of Citizens Utilities Company in Stamford, Connecticut, the parent company of Citizens Utilities Company of California. It may be that the parent corporation is not fully aware of the dissatisfaction with its water service in San Mateo County. I am confident the president of Citizens in Connecticut will respond.

Further, the Secretary of the Commission is requested to have the staff make a review of Citizens' water service in San Mateo County six months after the effective date of this order and file a copy of its report with my office and in the formal file of this proceeding.


J. P. Vukasin, Jr.
Commissioner

San Francisco, California

March 20, 1973

D. W. HOLMES, Commissioner, Dissenting:

I dissent.

Of necessity I must disagree with the disposition of this case by my fellow Commissioners. Only six of the twenty-six findings relating to the service and improvements in applicant's system can be construed to have affirmative connotations. The rest contain a recital of various deficiencies that continue to exist. The improvements made as a substitute for the staff's requirements, although improving the service, do not comply with Decision No. 77212 of this Commission. Further, there was no timely request for modification of said decision before installation of the proposed substitution for the required storage facilities.

The opinion of the majority finds that the service continues to be deficient and that the utility does not have a systematic plan to maintain and improve the Montara District water system. It is further found that it is not possible to determine from the record whether the storage and water supply in the District is reasonably adequate or of the best available quality.

In light of these circumstances, I find that approval of

this decision is to reward inefficiency and promote arbitrary interpretation of the Commission's orders.


Commissioner

Dated at San Francisco, California,
March 20, 1973