am/cmm

Decision No. 82310

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of FRANCIS LAND AND WATER COMPANY to increase its rates and charges for its water system serving the town of Ferndale and adjacent unincorporated territory in Humboldt County.	Application No. 53250 (Filed April 5, 1972)

Heller, Ehrman, White & McAuliffe, by Paul Alexander, Attorney at Law, and Jack D. Sanders, for applicant.
James K. Morrison, Attorney at Law, for the City of Ferndale, protestant.
William C. Bricca, Attorney at Law, and John D. Reader, for the Commission staff.

OPINION

By this application, Francis Land and Water Company, a wholly owned subsidiary of Citizens Utilities Company of Delaware (Citizens-Delaware),1/ requests an increase in rates for metered water service which is designed to increase annual revenues in the test year by $25,600 over the rates now in effect.

Public hearing was held at Ferndale on February 27 and 28, 1973. The matter was submitted on April 23, 1973, upon receipt of late-filed Exhibit 5. Copies of the application had been served and

1/ Citizens-Delaware is a utility which provides gas, electric, telephone, and water services in over 550 communities in many states across the nation.

notice of hearing had been published, posted, and mailed in accordance with this Commission's Rules of Procedure.

Oral and written testimony on behalf of applicant was presented by one of its assistant vice presidents, a rate accountant, and a controller for the California operations of Citizens Utilities Company. Citizens' system engineer was called under Section 776 of the Evidence Code by the city of Ferndale to testify regarding water supply and operations. The Commission staff presentation was made by a rate of return expert, two accountants, and two engineers. Five members of the public attended the hearing of whom three testified regarding applicant's proposed increase. The record contains 229 pages of transcript and 10 exhibits.

Summary of Earnings

A summary of applicant's and staff's estimated year 1973 earnings as presented in Exhibits 4-06 and 6 is:

	Exhibit 4-06		Exhibit 6			
	Applicant		Staff		Applicant Exceeds Staff	
Item	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present	Proposed
	(Dollars in Thousands)					
	Estimated Year 1973					
Operating Revenues	$ 43.3	$ 69.3	$ 44.5	$ 71.3	$(1.2)	$(2.0)
Operating Expenses						
Operation & Maintenance	16.4	16.4	15.7	15.7	.7	.7
Administrative & General	10.1	10.1	7.2	7.2	2.9	2.9
Depreciation	7.7	7.7	7.5	7.5	.2	.2
Taxes - Except Income	6.7	6.7	6.6	6.6	.1	.1
Income Taxes	-	4.4	(11.9)	2.3	11.9	2.1
Total Expenses	40.9	45.3	25.1	39.3	15.8	6.0
Net Operating Revenue	2.4	24.0	19.4	32.0	(17.0)	(8.0)
Average Rate Base	274.6	274.6	271.8	271.8	2.8	2.8
Rate of Return	0.87%	8.74%	7.14%	11.77%	(6.27)%	(3.03)%

(Red Figure)

Operating Revenues

According to the staff:

"The operating revenues shown in the summary of earnings can be considered as comprising three categories: commercial metered excluding large customers, large commercial metered customers, and other. (Applicant serves about 610 commercial customers.) As shown in the Summary of Earnings, the only significant difference in Operating Revenues is the amount of $2,000 for 1973 at proposed rates. This difference is shown in more detail in the following tabulation, where it is seen to lie primarily in the revenues from commercial metered excluding large customers. Both staff and applicant estimated 1972 consumption for this class of service at 97.0 Ccf customer, and both parties utilized the so-called 'Modified Bean' Method of multiple correlation analysis in arriving at this estimate. And for both parties this analysis indicated an upward trend in consumption of approximately 4 Ccf per customer per year. However, applicant's revised work papers, indicate that, even though it used the 97.0 Ccf level mentioned above, it has used a consumption trend of only 1.5 Ccf per customer per year from 1972 and 1973. The staff believes this discrepancy may be due to applicant's misconception of multiple correlation analysis, as evidenced in one of its work papers which states that the Modified Bean Method does not fully adjust for rainfall and temperature unless the period under study is normal. In the staff's opinion it is probably this erroneous view of the method which has led applicant to reject some results of its analysis while accepting others.

1973 Estimated Revenue at Proposed Rates

Category	Applicant	Staff	Applicant Exceeds Staff
	(Dollars in Thousands)		
Commercial Metered Excluding Large Customers	$62.1	$64.3	$(2.2)
Large Commercial Metered Customers	5.7	5.5	.2
Total Metered Customers	67.8	69.8	(2.0)
Other (Fire Protection & Misc.)	1.5	1.5	-
Total Revenue	69.3	71.3	(2.0) "

(Red Figure)

The Modified Bean Method, as exemplified by Standard Practice No. U-25,[2] has been used by the staff for many years and has been adopted by the Commission in many decisions. Over the long run, this technique, when properly applied, has yielded reasonable results. From our analysis of the staff's testimony, it appears that the method has been properly applied to the appropriate data. Therefore, we will adopt the staff's revenue estimate as being reasonable.

Operation and Maintenance Expense

The Summary of Earnings shows differences in operation and maintenance expense of $700 for 1973. These differences are detailed in the following tabulation:

Operation and Maintenance Expense Detail - Comparison Of Applicant's and Staff's Estimates - 1973

O.& M. Category	Applicant 1973	Staff 1973	Applicant Exceeds Staff 1973
	(Dollars in Thousands)		
Salaries and Wages	$10.9	$10.6	$0.3
Purchased Power	1.1	1.1	-
Materials, Services, Misc.	2.8	2.4	.4
Transportation	1.3	1.3	-
Telephone	.2	.2	-
Uncollectibles	.1	.1	-
Total	16.4	15.7	.7

2/ Standard Practice No. U-25. Guide For Adjusting And Estimating Operating Revenues Of Water Utilities. (First made public August 8, 1967.)

The staff's estimate of salaries and wages is based on latest known pay levels for non-union employees and on projected 1973 pay levels, as stipulated in existing labor contracts, for union employees. Staff analysis of applicant's work papers indicates that applicant's 1973 salary estimate reflects projected 1973 pay levels for both union and non-union employees. It is the Commission's long-established policy to use only known pay rates for rate making. We will adopt the staff's estimate as it adheres to established principles of rate making.

In the estimates for materials, services, and miscellaneous, applicant exceeds staff by $400. The staff believes its estimates are more reasonable than applicant's, partly because the staff was able to utilize more recent data (late 1972) than was available to applicant. A major portion of applicant's estimates was based on only two recorded years, the staff's estimate is the average of the last five years. The staff's estimates being based on more up-to-date information are reasonable and will be adopted.

Administrative and General Expenses

A summary of Administrative and General Expenses is:

Item	Applicant	Staff Estimate	Applicant Exceeds Staff
1972			
General Office Expenses	$ 2,700	$1,500	$1,200
Common Plant Expenses	300	810	(510)
Legal & Regulatory Comm. Exp.	3,500	1,750	1,750
Insurance	100	100	-
Injuries & Damages	800	430	370
Welfare & Pensions	1,900	1,780	120
Miscellaneous & Per Diem	400	400	-
Rents	400	400	-
Total	10,100	7,170	2,930
1973			
General Office Expenses	2,500	1,500	1,000
Common Plant Expenses	300	780	480
Legal & Regulatory Comm. Exp.	3,600	1,750	1,850
Insurance	100	100	-
Injuries & Damages	800	510	290
Welfare & Pensions	2,000	1,780	220
Miscellaneous & Per Diem	400	400	-
Rents	400	400	-
Total	10,100	7,220	2,880

(Red Figure)

General office expenses are from two sources, Stamford, Connecticut, and Redding, California. The 1972 Stamford administrative office expenses were adjusted by the staff. The staff's estimated salaries are the annualized salaries at the June 1, 1972 level. Salary charged directly is estimated by the staff based on the amounts recorded for the last three years. The staff has excluded such direct charges from the total salary to arrive at the amounts before allocation. Applicant made no such adjustment to its salaries. Accounting and Internal Audit and Tax Department salaries were adjusted by the staff to allow only one-half of the chief accountant's salary and two and one-half internal auditors and tax accountants, since Citizens has an accounting department in California. Secretary, filing, and other general office salary charges have been reduced by the staff in proportion to the accounting and internal audit and tax accounting salary adjustment. Other relatively minor adjustments are the result of using three-year averages or least square trending and a lower depreciation rate for office furniture. All contributions to charities and other community agencies were eliminated by the staff. The staff estimated the amount charged to capital from Stamford using a four-year average ratio of the construction fee to the actual construction applied to an adjusted construction budget for 1972, which includes additional construction as shown in the four current applications. For accounting billed directly, the staff used 50 percent of the Accounting Department salaries and 5 percent of the Secretary and Filing Department salaries. The ratio of the directly billed salary to the total salary of these two departments was then applied to the other expense items that are related to these two departments. The staff reviewed applicant's calculations and accepted the percentage allocations for Stamford administrative office expenses chargeable to California operations including the telephone operations. The allocated Stamford expenses were then combined with the Redding administrative office expenses before determining the amount of general office expense charged to each water district and to the Telephone Department.

The 1973 Stamford administrative office expenses are summarized in the following table. Applicant's estimate, in comparison to the 1972 estimate, includes a 5.5 percent salary increase, 2.5 percent more in other expenses and greater deductions in "charged to capital" and "billed directly". The staff's estimate is the same as its 1972 estimate except that the salaries are the annualized salaries at the October 1, 1972 level; and the payroll taxes are based on the current rates.

Item	Applicant	Staff	Applicant Exceeds Staff
Total Salaries	$1,355,100	$1,010,080	$345,020
Total Other Expenses	593,600	490,010	103,590
Total Salaries & Expenses	1,948,600	1,500,090	448,610
Less:			
Charged to Capital	1,089,000	1,041,570 1/	47,430
Accounting Billed Directly	122,000		122,000
Net Expense	737,700	458,520	279,180
Allocated to California			
Percent	29.50%	29.50%	
Amount	$ 217,600	$ 135,260	$ 82,340

1/ Included in staff's adjustments.

The staff's estimated salaries for the Redding administrative office are the annualized amount at the September 1, 1972 level. Applicant includes in its estimate the salaries of both managers of the telephone and the water departments and their secretaries, their general expenses, benefits, and payroll taxes. Since the manager of the

Water Department and his related expenses, according to the staff, should be more directly charged to the Water Department, the staff has allocated these expenses to the water systems only. While it is possible to charge the bulk of the Telephone Department manager's time directly to telephone operations, the staff believes it is reasonable to allocate 3 percent of his salary and related expenses to both departments for his supervision of other small departments which provide services to the water and telephone departments. The staff made its estimates of other general office expenses utilizing six months' recorded 1972 expenses. Insurance and audit expenses are based on a three-year average. The amount of unemployment and old age benefit tax is based on staff estimated salaries. The amount charged to capital is 1.5 percent of the adjusted construction which reflects the additional construction shown in the four current applications. Applicant's four-factor allocations between the Water and Telephone Departments and to the four water properties presently before the Commission were reviewed and accepted by the staff.

Applicant included in its 1973 Redding administrative office expenses, a 5.5 percent increase in salaries, a 2.5 percent increase in other expenses, and a 7.5 percent greater deductible "charged to capital", over the 1972 estimates. The staff's 1973 estimate is based on its 1972 estimate ($1,500) with two adjustments. Salaries are the annualized amount at the October 30, 1972 level for the supervisors and at the September 1, 1973 level for those employees covered by the agreement between Citizens Utilities Company of California and Local Union No. 1245. The other adjustment is made to payroll taxes using the current rates. The 1973 Redding administrative office expenses are summarized as follows:

Item	Applicant	Staff	Applicant Exceeds Staff
Total Salaries	$211,000	$148,600	$ 62,400
Total Other Expenses	75,500	53,310	22,190
Subtotal	286,500	201,910	84,590
Stamford Admin. Office Expense			
Allocated to California	217,600	135,260	82,340
Total Redding Expenses	504,100	337,170	166,930
Less: Charged to Capital	91,900	86,870	5,030
Net Expense	412,200	250,300	161,900
Allocation to Francis Land & Water Company			
Percent	0.60%	0.60%	-
Amount	$ 2,500	$ 1,500	$ 1,000

Common plant expenses are the operation and maintenance expenses of the Sacramento general office including the manager and secretary of the Water Department. These expenses are applicable only to the Water Department of Citizens Utilities Company of California and affiliated water companies in California. Employee salaries and expenses other than for the manager and secretary were estimated by the staff based on recorded amounts during 1970 and 1971. The estimated salaries of the manager and the secretary are the annualized amount at the current level. Dues, contributions, and donations expense is an adjusted three-year average, excluding contributions and donations. The staff estimates the depreciation expense for the Sacramento office using a 2 percent rate for the building and 15 percent for office furniture and equipment. Of these charges 39 percent has been allocated to common plant and the balance to Sacramento County water systems. The staff's estimated property tax on the Sacramento office reflects the sale of a portion of the land. The common plant expense allocated to the Francis Land and Water Company is $810.

Applicant's 1973 common plant expense is $16,600 which includes a 6 percent salary increase and a 2.5 percent increase in other expenses over the 1972 estimate. The staff's estimate of $48,820 is similar to the 1972 estimate except that the salaries are at the October 30, 1972 level and the payroll taxes are on current rates. Both applicant and staff allocate this common plant expense on an estimated 1.60 percent to Francis Land and Water Company in the amounts of $300 and $780, respectively.

In rebuttal to the staff's testimony, a controller for the California operations of Citizens Utilities Company testified that the salaries of Mr. Chenault and Mr. Steele should be included in the Redding Administrative office account as both are vice presidents of the California operations of Citizens Utilities and their functions necessarily relate to other corporate matters that involve the accounting and data process operations of the company. He advocated that Mr. Chenault's secretary be left in the general pool of administrative expenses to be distributed. Because Mr. Steele's secretarial needs are limited, he does not have a full-time secretary assigned to him[3/] but draws on the pool of the stenographic system which is a part of the accounting department staff.

He also testified that travel expenses of $5,590 were attributable to himself and Redding personnel other than the two vice presidents.

The rebuttal testimony is convincing and will be considered in the allowed administrative and general expenses.

3/ His prior secretary retired in mid-1972.

Applicant estimated the present rate case expense at $10,300 which was based on, among other things, hiring a law firm attorney to handle the whole proceeding. The staff estimate of rate case expense includes the cost of preparing the application by the local law firm attorney, and the travel and per diem expenses of applicant's lawyer. The staff also allows travel and per diem of company people from Stamford, Connecticut, and from Redding and Sacramento, California. The total rate case expense estimated by the staff is $4,950. Both applicant and staff prorate this expense over three years; the annual amounts are $3,400 by applicant and $1,650 by the staff.

In point of fact an attorney from a local law firm handled the hearing instead of Stamford counsel. The savings in travel and per diem for the Stamford counsel being nearly equivalent to the legal expense for local counsel for a two-day hearing, and the estimate otherwise appearing reasonable, the staff's estimate will be adopted.

Staff's Exhibit 6 shows an upward trend in rate of return at proposed rates of .23 percent.

The staff's exhibit states:

"<u>Recommendations and Conclusions</u>

"38. The staff has included estimated results of operation for 1972 and 1973 for the principal purpose of evaluating the trend in the rate of return. Plant expenditures in future years are not expected to continue at the 1972 level. If the Commission adopts the staff results including negative income taxes, the staff recommends that the Commission consider the trend in rate of return to be level."

It is apparent from Exhibit 6 that both applicant and staff estimate a decline in rate base between 1972 and 1973. We can expect such decline to continue in the future. Such decline should offset the effects of inflation.

The staff estimates of injuries and damages cost based on the recorded amounts are reasonable.

The staff bases its adjustment to welfare and pensions on its lower estimate of administrative salaries. Applicant allocates 92.50 percent of these charges to expense and 7.50 percent to capital which allocation is reasonable.

Depreciation Expense and Reserve

Applicant and staff compute depreciation expense by the straight-line remaining life method and apply depreciation rates by accounts as approved by the Commission on March 14, 1972. Both applicant and the staff use the same method and apply these rates by accounts to the average of adjusted beginning- and end-of-year depreciable plant balances. The differences in depreciation expense and reserve are due to adjustments in the beginning-of-year balances made by the staff and to the staff's estimated plant additions and retirements. The staff's estimates are reasonable.

Taxes Other Than Income

The differences in payroll taxes are due to the staff using its estimated salaries and the 1973 rate of 5.85 percent on tax base $10,800 in computing the Federal Insurance Contribution Act tax. Applicant used 5.65 percent on $10,000 base in its calculation of F.I.C.A. tax.

Both applicant and staff compute ad valorem taxes based on plant balance at the beginning of year and a composite tax rate. The difference in the ad valorem taxes is due to the staff using an adjusted plant balance at the beginning of the year and an estimated rolled-back nonrevenue producing plant less than the applicant's. The staff computes the composite tax rates based on the last known assessment of utility plant and tax rates supplied by the Humboldt County assessor. The staff's composite tax rate is 1.62 percent for 1972 and 1973. Applicant's composite tax rate, based on a five-year average, is 1.66 percent for both 1972 and 1973. The staff's estimate is reasonable.

Income Taxes

Staff income tax computations are detailed in Tables 5-A and 5-B. Applicant computed income taxes at a rate of 7.6 percent for the state corporation franchise tax and 48 percent for the federal income tax. The staff used the 1973 tax rate of 9.0 percent for the state corporation franchise tax and 48 percent for the federal income tax. The differences in taxes are mainly due to the different estimates of operating income and deductions for income tax purposes. Applicant computed depreciation for both state and federal tax purposes on a straight-line basis; but its parent company, Citizens Utilities Company, applied liberalized depreciation to the 1971 plant additions in the 1971 consolidated income tax returns. The staff has computed depreciation on a straight-line basis for plant constructed before January 1, 1971, and uses liberalized depreciation for qualifying additions in and after 1971 on a flow-through basis. Asset depreciation range depreciation was reviewed and is not applicable to the qualified 1972 and 1973 additions. Applicant computed the investment tax credit on the 1971 and 1972 plant additions and deducted 3.5 percent (spread over 28 years) of this credit as an annual amount from its federal income tax. The staff computed the investment tax credit on a five-year average of the plant additions and deducted the entire amount from the federal income tax. This is the basis used by the Commission staff in all recent proceedings before this Commission. The staff included negative income taxes because applicant's parent company, Citizens Utilities Company, files its federal income tax returns on a consolidated basis. The negative income tax figures for the parent reduce the income taxes of the subsidiaries. We find negative income taxes are proper in this proceeding.

For the purpose of this decision only, we will adopt the staff position on income taxes. This is not a determination that flow-through is the proper tax treatment for applicant, but merely an expeditious method of bringing this long-protracted case to a conclusion. A decision on the merits of flow-through versus normalization in regard to applicant's treatment of income taxes is reserved for further hearings at which time evidence on all facets of the controversy can be placed before the Commission. This is the method utilized in Re Pacific Tel. and Tel., Decision No. 80347 dated August 8, 1972 in Application No. 51774, page 3.

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Rate Base

A summary of applicant and staff rate base for estimated year 1973 is:

Item	Applicant	Staff	Applicant Exceeds Staff
Utility Plant in Service	$ 364,900	$ 360,700	$ 4,200
Reserve for Depreciation	(82,600)	(81,610)	(990)
Net Plant in Service	282,300	279,090	3,210
Common Plant	1,000	900	100
Materials and Supplies	1,400	1,140	260
Working Cash	5,300	4,600	700
Minimum Bank Balances	3,100	750	2,350
Non-Interest Bearing CWIP	900	460	440
Advances for Construction	(14,400)	(14,400)	-
Contributions in Aid of Construction	(1,500)	(760)	(740)
Reserve for Deferred Income Taxes	(3,500)	-1/	(3,500)
Subtotal	(7,700)	(7,310)	(390)
Average Rate Base	274,600	271,780	(2,820)

(Red Figure)

1/ Staff applies liberalized depreciation on a flow-through basis to the income taxes.

Both applicant and staff adjusted the beginning-of-year balances of the utility plant and depreciation reserve by rolling back nonrevenue producing plant additions and retirements before computing average figures for these two items. The average utility plant and depreciation reserve are the average of beginning- and end-of-year balances.

The difference in common plant is due to slightly different treatment by the staff of the sale of a portion of the land where the Sacramento office building is located.

The difference in the materials and supplies is that the staff uses a three-year average of recorded end-of-year balances, where applicant used a five-year average.

Applicant and staff compute the working cash by using the simplified basis prescribed by the staff Standard Practice U-16. The difference is due to the different estimates of revenues and expenses.

An allowance for minimum bank balances has been included in the rate base to compensate for the non-interest bearing bank balances required in order to obtain short-term bank financing. The staff estimates the 1972 minimum bank balances for Citizens Utilities Company on a consolidated basis at 15 percent of the average of beginning- and end-of-year bank loans. The portion for the Francis Land and Water Company is determined by the ratio of its plant construction to Citizens' total construction on a five-year average basis. Applicant computed the minimum bank balances by applying 7.6 percent of the average short-term debt ratio and 15 percent as the minimum bank balance to the rate base.

The difference in non-interest bearing construction work in progress occurs because the staff applies 8.31 percent, a three-year average ratio of non-interest bearing CWIP to the total construction, to the net construction, where applicant used 10 percent on its net construction.

The difference in the contributions in aid of construction occurs because applicant erroneously added to the 1972 balance a new contribution.

Applicant includes additions to deferred income taxes for 1971, 1972, and 1973 in the reserve for deferred income taxes. The staff has used liberalized depreciation on a flow-through basis in the computation of income taxes; thus, the staff's reserve for deferred income taxes is that prior to 1971, which is nothing.

Staff firmly believes that the interest-during-construction rate of 9.00 to 9.69 percent is too high and should be not more than 7.5 percent. The staff testified that a change now would only represent minor change in rate base but that it wants the principle established. Applicant objects that talking about such a minor item in this case is not proper. We place applicant on notice that its rate of 9.00 to 9.69 percent is too high not only for Francis Land and Water Company but for all of Citizens' other water companies and districts, as well as for its telephone department. To avoid further controversy, it should immediately change its interest-during-construction rate to 7.5 percent as recommended by the staff.

The staff's rate base, for purposes of this decision, more nearly reflects our traditional method of calculating the various components of rate base than does applicant's rate base. Thus, we will adopt the staff's rate base for test year 1973.

<u>Rate of Return</u>

Applicant 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 reasonable operating expense, 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 applicant's water consumers with the lowest rates practicable, consistent with the protection of applicant'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.

Applicant contends that based on its study a reasonable rate of return would be no less than 9.75 percent. This results in a return on common equity in the range of 12 to 14 percent. However, according to applicant, if the Commission authorizes its requested rates, the actual rate of return realized, based on its estimated results of operation, would be but 8.74 percent.

The Commission staff's opinion is that 7.70 percent is the minimum rate of return required. This would result in a return on equity of 8.96 percent. The staff's rate of return recommendation does not give consideration to any service deficiencies nor does it consider attrition.

The staff's determination of a fair rate of return is reasonable and will be adopted because such a return meets the requirements set forth above.

Position of City of Ferndale

The city of Ferndale understands that costs have gone up and that applicant has expended monies to update the water system. It agrees that some rate increase is justified but it does not feel that applicant's requested relief is justified. Ferndale believes that the customers are entitled to a base of 800 cubic feet rather than the existing 500 cubic feet.[4/] after some slight increase in the minimum charge.

Quality of Service

A lady who keeps livestock in pasture requested that a separate rate be established for agricultural use.

A gentleman testified that he and his wife objected to the taste and odor of the water. In addition, he testified that he found quite a bit of sediment in his toilet tank and that the sides of the tank were slimy. In addition, he has found sediment in the bottom of his dog's bowl.[5/]

A gentleman testified that although he realized a rate increase was necessary, he was concerned that if new rates were set that did not provide for more water in the summertime, people on fixed incomes could no longer afford to water their lawns and gardens and the appearance of the town would suffer.

Field investigations of applicant's operations and facilities were made by the staff during August and December of 1972. According to the staff, the plant and equipment were, on the whole, in satisfactory condition, and it appeared that reasonably good service was being furnished.

A tabulation of service complaints on file in applicant's office shows the following: 1969, three; 1970, four; 1971, four; and 1972, two.

4/ Based on applicant's letter of April 5, 1972.

5/ Late-filed Exhibit 5 is a report of applicant's investigation of this complaint.

No informal complaints were registered with the Commission during the period 1969 through 1972.

Applicant's Exhibit 5 states:

> "The investigation failed to disclose a reason for the intermittent odor, taste, and residue problem. A sample of water was taken and submitted for a complete analysis. A copy of that analysis is attached. It is noted that the hardness of the water, 133.9 Mg/L, places the water in the low range of what is generally described as "hard" (121-342 Mg/L). Perhaps some of the water at Ferndale varies considerably from that previously experienced by the Muellers, and this may cause some of the differences noted in the physical quality.
>
> "The accumulation of sediment in the toilet bowls, and the minute amounts present from time to time, are attributed to the fact that on occasion some sand may find its way from the various collecting basins into the distribution system. A review of the complaints received at the office of Francis Land and Water Company discloses that there were no complaints regarding sand in the water received by the Company during the year 1972.
>
> "Mr. Mueller has been requested to immediately contact the water company in the event he notices a quality problem, so that there will be the possibility that an investigation can be made at the time the problem occurs."

Adopted Results

Operating Revenues	$ 47,650
Operating Expenses	
Operation & Maintenance	15,700
Administrative & General	6,500
Depreciation	7,500
Taxes - Except Income	6,600
Income Taxes	(9,550)
Total Expenses	$ 26,750
Net Operating Revenue	20,900
Average Rate Base	271,800
Rate of Return	7.7%

(Red Figure)

Based upon the adopted results, applicant is entitled to a rate increase of $3,150 instead of its requested $25,600.

Rate Spread

On April 5, 1972, applicant's outside counsel mailed a letter to certain officials, including the City Attorney and the City Clerk of the city of Ferndale. The rate schedule attached to the letter shows that at both present and proposed rates, it is based upon quantity rates beginning with the first 500 cubic feet or less.6/ Ferndale based its request for an 800 cubic foot minimum on the 500 cubic feet shown in the letter.

In an effort to resolve the question of rate spread, applicant prepared Exhibit 10 which purported to show the effects of spreading rates as proposed by the city of Ferndale. Unfortunately, Exhibit 10 was not constructed upon Ferndale's basis.

6/ The filed tariff rate is based on the first 400 cubic feet. It seems strange that with all the claimed time spent by applicant and its counsel on preparation for this case that the error was not discovered prior to the hearing.

Applicant, in its exhibit, did not increase the readiness-to-serve charge as suggested by Ferndale. However, enough evidence was introduced so that we can determine a proper rate spread. We will increase the minimum charge and include an allowance of 500 cubic feet. The authorized rate spread is included herein as Appendix A. Based on this record, there is no need to authorize a separate schedule for watering livestock.

Findings

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1973, indicate that results of applicant's operation in the near future will produce a reasonable rate of return.

3. A rate of return of 7.70 percent on the adopted rate base and return on common equity of 8.96 percent for the future is reasonable. Rates should be increased by approximately $3,150.

4. A proper rate spread should include a minimum charge of $3.25, and an allowance of 500 cubic feet.

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 for the future unjust and unreasonable.

6. Service meets the minimum requirements of General Order No. 103.

Conclusion

The application should be granted to the extent set forth in the order which follows:

A. 53250 cmm

ORDER

IT IS ORDERED that:

1. Francis Land and Water Company is authorized to file the revised schedule 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 schedule shall apply only to service rendered on and after the effective date thereof.

2. Further hearing for determining the proper method that applicant should use in computing depreciation for both state and federal income tax purposes shall be held at a time and place to be set.

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

Dated at San Francisco, California, this 8th day of JANUARY, 1974.

Vernon L. Sturgeon
President

William Symons Jr.

Commissioners

I concur
I believe a rate increase is justified but in today's money market the rate of return and the return on equity are both too low in this order
Vernon L. Sturgeon

I dissent J. P. Vukasin Jr., Commissioner
for the reasons set forth in President Sturgeon concurring opinion

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Ferndale and vicinity, Humboldt County. (T)

RATES

	Per Meter Per Month	
Quantity Rates:		
First 500 cu.ft. or less	$ 3.25	(I)
Next 1,500 cu.ft., per 100 cu.ft.	.62	
Next 3,000 cu.ft., per 100 cu.ft.	.43	
Next 5,000 cu.ft., per 100 cu.ft.	.26	
Over 10,000 cu.ft., per 100 cu.ft.	.19	
Minimum Charge:		
For 5/8 x 3/4-inch meter	3.25	
For 3/4-inch meter	5.00	
For 1-inch meter	8.00	
For 1-1/2-inch meter	15.00	
For 2-inch meter	22.00	
For 3-inch meter	36.00	
For 4-inch meter	55.00	
For 6-inch meter	85.00	
For 8-inch meter	125.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.