

Decision No. 82650

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
CALIFORNIA CITIES WATER COMPANY, a )  
California corporation, for authori- )  
zation to increase rates and charges )  
for water service in its Clearlake )  
District. )

Application No. 53973  
(Filed April 17, 1973)

Gibson, Dunn & Crutcher, by Raymond Curran,  
Attorney at Law, for California Cities  
Water Company, applicant.  
Bernard A. Peeters, Attorney at Law,  
I. B. Nagao, and John Brown, for the  
Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey at Clearlake Highlands on October 29, 30, and 31, 1973. The matter was submitted upon the receipt of Exhibit No. 7 on January 16, 1974.

California Cities Water Company was formed by merger of the former California Cities Water Company and the California Consolidated Water Company as approved in Decision No. 80264 dated July 18, 1972. Applicant operates water systems as operating districts in eight communities throughout California. Applicant also holds interests in several mutual water companies within the state. Applicant's main office is located in San Dimas, California.

Applicant is a wholly owned subsidiary of Consolidated Water Company whose general office is located at Miami, Florida. Consolidated Water's parent company is GAC Utilities, which, in turn, is a subsidiary of GAC Corporation, a holding company.

Applicant's Clear Lake District was formerly the Clearlake Park Water Company which was purchased in 1967 by Consolidated Water Company of Chicago and later merged into California Consolidated Water Company. The Clearlake Park Water Company began water service prior to 1935 in the unincorporated area known as Clearlake Park and to an adjacent area known as Clearlake Highlands. In 1964 the Burns Valley Water Company, which had previously been a wholesale customer, was acquired. In the same year, operation of a second small system was taken over on a forty-year lease with an annual lease payment of \$1. As provided for in this lease, applicant retains ownership of all new facilities which it installs in the area served by the leased system.

About 1,500 customers are in the Clearlake District service area located on the southeastern shore of Clear Lake in the communities of Clearlake Park and Clearlake Highlands approximately 120 miles north of San Francisco. The service area is long, narrow, and stretches for a distance of approximately 7 miles along the shore of the lake. Development of the area consists of lake-front cottages, resorts, and business places along the lake and single family homes on higher land away from the lake shore. The area is a typical resort community with less than 50 percent of the customers being year-round residents. Many of these all-year residents are retired and living on small fixed incomes.

The last rate proceedings relative to the Clearlake District was Application No. 51230 which was granted in part in Decision No. 77084 dated April 14, 1970. Applicant has complied with the order in this decision to install and place in operation a new booster pump for the upper zone, and a new treatment plant. However, applicant has not installed the 500,000-gallon steel storage tank which it proposed in Application No. 51230 and which was included in the adopted rate base.

Rates

Applicant presently charges the following minimum charge rates for metered service:

Present Meter Rates

<u>Quantity Rates:</u>		<u>Per Meter Per Month</u>
First	200 cu.ft., or less .....	\$ 4.55
Next	1,300 cu.ft., per cu.ft. ....	.80
Next	3,500 cu.ft., per 100 cu.ft. ....	.60
Over	5,000 cu.ft., per 100 cu.ft. ....	.40

<u>Annual Minimum Charge:</u>		<u>Per Meter Per Year</u>
For	5/8 x 3/4-inch meter .....	\$ 54.60
For	3/4-inch meter .....	70.00
For	1-inch meter .....	100.00
For	1-1/2-inch meter .....	172.00
For	2-inch meter .....	255.00
For	3-inch meter .....	425.00
For	4-inch meter .....	600.00

The annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

Applicant proposes to charge the following service charge rates for metered service:

		<u>Per Meter Per Month</u>
First	1,500 cu.ft., per 100 cu.ft. ....	\$ 0.80
Over	1,500 cu.ft., per 100 cu.ft. ....	.60
		<u>Per Meter Per Year</u>
For	5/8 x 3/4-inch meter. ....	\$ 78.00
For	3/4-inch meter .....	99.00
For	1-inch meter .....	141.00
For	1-1/2-inch meter .....	240.00
For	2-inch meter .....	360.00
For	3-inch meter .....	600.00
For	4-inch meter .....	850.00

The Service Charge is applicable to all metered service. It is a readiness-to-service charge to which is added the charge computed at the Quantity Rates for water used during the month.

No change in rates for private fire protection and public fire hydrant services is proposed.

A number of the public witnesses and the staff commented adversely on the proposed change in rate schedule structure. The overall requested increase is about 43 percent. Applicant's proposed change from minimum charge rates to service charge rates would result in increases ranging from 78 percent for a monthly usage of 200 cubic feet to 10 percent for 5,000 cubic feet. Exhibit No. 1 indicates that 51 percent of monthly bills are for usage of 200 cubic feet or less. Decision No. 77084 states in the opinion that "For this area, a service charge type of rate ultimately will provide the most equitable distribution of revenue requirement". The Commission did not then have before it the present proposal. The staff recommends that the minimum charge type rate be retained. We will adopt the staff's recommendation for the purpose of this proceeding. Applicant should consider for future rate proceedings a gradual transition from minimum to service charge rates so as to minimize economic shock to minimum users with limited incomes.

#### Results of Operation

The following tabulation compares the estimated summaries of earnings for the test year 1974 under present and proposed rates, prepared by applicant and by the staff, and the results of operation adopted for the purposes of this proceeding:

Item	Applicant		Staff		Adopted
	Present	Co. Proposed	Present	Co. Proposed	
	Rates	Rates	Rates	Rates	
Operating Revenues	\$135,630	\$194,600	\$135,630	\$194,400	\$160,760
<u>Operating Expenses</u>					
Oper. & Maint.	54,030	54,030	51,975	51,975	51,975
Admin. & Gen.	23,710	23,710	19,310	19,310	14,220
Taxes Other Than Inc.	13,280	13,280	12,090	12,090	12,090
Depreciation	22,930	22,930	23,370	23,370	23,370
Wage Adjustment	-	-	-	-	1,328
Subtotal	113,950	113,950	106,745	106,745	102,983
Income Taxes	200	26,100	(860)	30,110	14,361
Total Expenses	114,150	140,050	105,885	136,855	117,344
Net Operating Revenue	21,480	54,550	29,745	57,545	43,416
Depreciated Rate Base	569,050	569,050	549,450	549,450	549,450
Rate of Return	3.77%	9.59%	5.41%	10.47%	7.9%

(Red Figure)

Operation and Maintenance Expense. The difference between the estimated operation and maintenance expenses amounts to \$2,055 due to the net effect of three items. First, the staff excluded \$1,465 to amortize the recent back-billing by the Yolo County Flood Control and Water Conservation District for water produced in excess of applicant's prescriptive right during the period October 1, 1958 through December 31, 1971. Second, the staff did not increase the payroll by 5.5 percent as did the applicant for its 1974 estimates. This is in accordance with present staff policy to exclude wage increases not covered by contract or a firm offer, and the Commission's commitments under the Federal Government's Economic Stabilization Program that rates will not reflect future inflationary expectations.

Finally, the staff's estimate of purchased electric power exceeds that of applicant by \$460. This is due to the staff's inclusion of the effect of the electric power unit cost increase which became effective on April 7, 1973. This information was not available to applicant at the time its report was prepared.

We will not include the amortization of the back-billed water. The staff has correctly argued that to do so would in effect be retroactive rate making. Likewise, we will make no retroactive adjustment for the estimated cost of the storage tank, \$50,000, which was included in the rate base adopted in Decision No. 77084 but which has not been installed. Of the \$100,000 budgeted by applicant to be installed in 1970, \$55,892 was actually installed.

Applicant's Exhibit No. 3 sets forth a resolution of applicant's Board of Directors which states the intent to grant a wage increase which may amount to an increase of 5.5 percent. Witness for applicant testified that payroll increases for the main office and Clearlake District would be effective on December 26, 1973 for 1974. The staff accepted this testimony as a firm commitment and stated that the amount to be included for the total wage adjustment is \$1,328. We will include this amount for increased wages in our adopted results.

Administrative and General Expenses. The difference between the estimates of administrative and general expenses amounts to \$4,400. This difference is in part related to the staff wage adjustment discussed above. The remaining difference of \$4,150 in general results from inclusion by applicant of an amount in the total payroll which should have been charged to affiliated companies and applicant's method of estimating costs which were increased by judgment factors. The staff method of estimating based on projections of previous costs appears to result in reasonable results and will be adopted.

For 1972, applicant was allocated 19 percent or \$63,000 of the net allocable costs of \$334,211 of its parent company, Consolidated Water. The Clearlake District's portion of these expenses amounted to \$4,600 or about 7 percent of applicant's allocation. The major part of Consolidated Water's net allocable costs

of \$334,211 was \$293,000 which represents its allocated portion of the expenses of GAC Utilities. In the staff's opinion, insufficient support of parent company charges was provided to the staff so that reasonableness of the charges could not be determined. Applicant elected to forego its request for main office allocated expenses amounting to \$5,090 rather than incur the expense and delay which would result from making a presentation in this proceeding and to make an appropriate showing in its next major rate increase proceeding.

We will not include the \$5,090 in adopted administrative and general expenses or in our calculation of income taxes. This will increase in effect the amount allowed for income taxes over the amount applicant or its parent company will actually pay by about one-half of the allocated expenses.<sup>1/</sup> Under the circumstances of this proceeding this will be a reasonable recognition that some costs properly chargeable to California operations will be incurred by the parent company.

Taxes Other Than Income. Differences between applicant and staff are due to the staff's use of the latest known rates and bases for computation of taxes other than income. We will adopt the staff's estimate.

Rate Base. The staff rate base is less than that of applicant because the staff used recorded data in 1972, more current estimates of plant additions for 1973 and 1974 and rolled back

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<sup>1/</sup> We note that this record discloses that a single consolidated return is filed by the GAC Corporation and that in calculating the income tax of the various subsidiaries only an allocation of parent company debt expense is used in that computation to reduce net taxable income. We shall expect applicant to fully disclose to the staff at an appropriate time sufficient information regarding the consolidated income tax returns of GAC Corporation and to make a showing to enable the Commission to determine the reasonableness of future rate-making allowances for income taxes.

nonrevenue producing additions in 1974 to the beginning of 1973 rather than to the beginning of 1974. Staff also adjusted plant for accounting omissions. The staff estimated \$760 more working cash than applicant in accordance with the staff's standard practice for water utilities. The staff noted that applicant has used excessive rates for capitalized interest during construction but proposed no adjustment. We will adopt the rate base recommended by the staff.

Rate of Return

Applicant requests a rate of return of 9.59 percent based on a cost of debt capital calculated to be 7.43 percent combined with a 12 percent return on equity. After considering the factors set forth in staff Exhibit No. 6, the staff witness concluded that a rate of return in the range of 7.9 percent to 8.20 percent on the rate base for the test year 1974 is reasonable. This is equivalent to an allowance for common equity in a range of 9.05 percent to 9.77 percent which represents 41.77 percent of total capital after elimination of acquisition adjustments for common equity. The staff recommended no trend in rate of return be recognized and that the lower end of the staff's range in rate of return be adopted. Considering the value of service and that applicant has charged excessive amounts of interest during construction, we find reasonable the staff recommendation of 7.9 percent for the rate of return on rate base.

Accounting. Decision No. 77004 suggested that the accounting changes recommended by the staff should be effected by applicant. It appears that applicant has not followed the staff accounting recommendations. In this proceeding the staff made the following recommendations:



- "1. Applicant follow its filed Tariff Rule 15 in correcting prior errors and future contracts.
- "2. Accounting errors be corrected in accordance with the Uniform System of Accounts.
- "3. Applicant close its work orders as utility plant additions are put into service.
- "4. Applicant be ordered to implement the above recommendations."

This is to advise applicant that we find the staff accounting recommendations reasonable and expect applicant to promptly implement them as set forth in Exhibit No. 5 in this proceeding. However, since applicant's vice-president and general manager only recently joined applicant on March 26, 1973, we will afford applicant an opportunity to comply with the staff recommendations without so ordering in this decision.

Public Presentation and Service

The staff report states that:

"There have been three informal complaints to the Commission since January 1, 1971. Two objected to the annual meter charge which is included in the approved tariffs. The third complaint concerned low pressure, leaks in mains and protested the current application for a rate increase. Applicant reported that it investigated the particular complaint and found the pressure to be within the limits of G.O. 103 and that it had repaired the leaks. Complaints to applicant totaled 209 in the period January 1, 1972 through June 30, 1973. These are divided into 97 high bills, 32 dirty water, 32 requests for flushing, 28 low pressure and 20 miscellaneous. Applicant advises that its policy is to answer and correct complaints on the day received. All complaints have been corrected within the capability of the local management. Low pressure problems due to undersize mains are being remedied in several areas by additional investments now in progress and planned for 1974."

Public testimony confirmed that applicant has service problems of water taste and odor, leaking mains, water outages without notice, slow response to service calls, low pressure, location of fire hydrants, and meter reading.

Applicant's general manager responded to the public complaints on service. He indicated willingness to have meter reading periodically audited, to develop and follow a flushing program, to make such bill adjustment as appropriate, and to continue the program of improving the main replacement and burial program. It was noted that fire hydrants are installed upon the request of the fire district but that the district has limited funds to pay for the hydrants.

Again, we will give applicant's newly appointed general manager an opportunity to improve service without constraining applicant with specific orders. However, we expect applicant promptly to train and begin auditing meter readers, to develop and implement such a flushing program that will mitigate odor and taste problems due to the heating in the summertime of pipes laid on the surface of the ground and to develop a specific program to promptly replace and/or bury mains causing service problems within the next five years. The foregoing will require a comprehensive survey of customer complaints and service conditions to insure management action to correct the unacceptable service conditions brought to the manager's attention during this proceeding. It is recognized that improving service will require substantial plant additions and increases in capital cost. If applicant desires, after development of its proposed program of service improvements it may apply to the Commission for its review and concurrence and for authorization of such increases in rates as may be justified by specific expenditures. Until adequate corrective action is demonstrated we find that the value of the service does not justify a rate of return higher than the low end of the range in the rate of return recommended by the staff.

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 1974 reasonably indicate the results of applicant's operations in the near future.

3. A rate of return of 7.9 percent on the adopted rate base for the year 1974 is reasonable.

4. The increases in rates and charges authorized by this decision are just and reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

5. The total amount of increased revenue due to the rates and charges authorized by this decision is \$25,130; the rate of return on rate base is 7.9 percent; and the return on common equity is 9.05 percent.

6. The staff accounting recommendations are reasonable.

7. Service is presently not satisfactory and should be improved.

We conclude that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, California Cities Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. 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 26<sup>th</sup>  
day of MARCH, 1974.

Vernon L. Sturgeon  
President

William J. Synnott

[Signature]

[Signature]  
Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

## APPENDIX A

Schedule No. CL-1A

Clearlake Tariff AreaANNUAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Clearlake Park and vicinity, Lake County.

RATES

		Per Meter Per Month	
Monthly Quantity Rates:			
First	200 cu.ft., or less.....	\$ 5.40	(I)
Next	1,300 cu.ft., per 100 cu.ft. ....	.95	
Next	3,500 cu.ft., per 100 cu.ft. ....	.71	
Over	5,000 cu.ft., per 100 cu.ft. ....	.48	(I)
		Per Meter Per Year	
Annual Minimum Charge:			
For	5/8 x 3/4-inch meter .....	\$ 64.80	(I)
For	3/4-inch meter .....	83.30	
For	1-inch meter .....	119.00	
For	1 1/2-inch meter .....	204.70	
For	2-inch meter .....	303.45	
For	3-inch meter .....	505.75	
For	4-inch meter .....	714.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.