

Decision 82 02 059 February 4, 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CITIZENS UTILITIES COMPANY OF)
CALIFORNIA for authority to increase)
rates and charges for water service)
in its Sacramento County Water)
District.)

Application 60132
(Filed December 10, 1980)

FLOYD NORRIS, et al.)
(CROSSWOODS HOMEOWNER ASSOCIATION),)

Complainant,)

vs.)

Case 10287
(Filed July 3, 1980)

CITIZENS UTILITIES COMPANY OF)
CALIFORNIA,)

Defendant.)

Cooper, White and Cooper, by E. Garth Black,
Attorney at Law, and John H. Engel, Attorney
at Law, for Citizens Utilities Company of
California, applicant and defendant.

Gene E. Pendergast, Jr., Attorney at Law, for
Floyd Norris, et al. and Crosswoods Home-
owner Association, complainants.

Alvin S. Pak, Attorney at Law, and Mehdi Radpour,
for the Commission staff.

O P I N I O N

In Application (A.) 60132, Citizens Utilities Company
of California (Citizens-California), seeks an increase of water
rates for its Sacramento County Water District (SCWD).

The amount of the proposed revenue increase for flat rate service is \$577,700 or an increase of 25.89% in 1980; \$287,200 or 9.72% in 1981; and \$228,060 or 6.71% in 1982. The amount of the proposed revenue increase for metered service is \$207,900 or an increase of 25.75% in 1980; \$108,900 or 10.23% in 1981; and \$77,800 or 6.46% in 1982.

In Case (C.) 10887 filed July 3, 1980 Crosswoods Homeowner Association (Crosswoods) complains that the SCWD practice of billing individual homeowners of Crosswoods its standard flat rate charge for domestic water service and further billing Crosswoods for water used in common areas of the development is discriminatory when compared to the total water service charges paid by other homeowners in the SCWD service area.

A duly noticed and consolidated hearing was held before Administrative Law Judge (ALJ) Orville I. Wright in Sacramento on April 27, 28, 29, 30, and May 1, 1981, and in San Francisco on June 8, 9, 10, and 11, 1981. The final submission date for the last of the issues involved in these proceedings was September 14, 1981.

Summary of Decision

Citizens-California's SCWD is granted a general rate increase of \$757,100 for test year 1981 and a further increase of \$127,500 in test year 1982. The increase for 1981 is 23.1% and the increase for 1982 is an additional 3.7%.

Since this order will be effective early in 1982, the rates will be based upon the revenue requirement adopted for the 1982 test year. The total revenue increase for test year 1982 is \$924,700 or 26.8%.

A rate of return of 12.04% on rate base is found reasonable. Return on equity is 13.2%.

In the complaint proceeding, a new rate is adopted for homeowners in attached-home developments such as Crosswoods which reduces the flat rate charge for water service to residences occupying smaller lots.

Table I, following, shows revenues, expenses, and rate base for 1981 as developed by applicant and by staff, differences being labeled "at issue." Adopted revenues and expenses at present rates and at adopted rates are also depicted.

Table II presents the aforesaid data for 1982, and Tables III and IV show rate base issues and their resolution.

For test year 1981 \$10,300 of the revenue requirement increase is due to the Economic Recovery Tax Act (ERTA); the effect for test year 1982 is \$16,700. The effect could increase. This is an interim decision and this proceeding is kept open for further analysis of ERTA on Citizens' revenue requirement. However, we will direct Citizens to notify its SCWD customers of the ERTA effect on rates (see Appendix D).

**Citizens Utilities Company of California
Sacramento County Water District
1981 Summary of Earnings**

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted Revenues & Expenses</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>					
Metered	\$ 866,300	\$ -	\$ 866,300		
Flat Rate	2,340,000	(31,800)	2,371,800		
Private Fire Protection	35,300	-	35,300		
Other	38,900	-	38,900		
Total Operating Revenues	3,280,500	(31,800)	3,312,300	\$3,280,500	\$4,037,600
<u>Operating Revenue Deductions</u>					
Salaries and Wages	492,300	24,800	467,500	467,500	467,500
Materials, Serv. & Misc.	233,700	45,600	188,100	188,100	188,100
Purchased Power	348,700	(3,700)	352,400	348,700	348,700
Balancing Acct. (T.I.A.)	-	-	-	-	9,800
Customer Acct. & Misc.	210,300	62,500	147,800	145,300	145,300
Transportation Expense	101,300	17,100	84,200	101,300	101,300
Telephone and Telegraph	6,900	-	6,900	6,900	6,900
Banking Charges	-	(13,100)	13,100	-	-
Uncollectible Accounts	2,300	-	2,300	2,300	2,800
Administrative Office Exp.	438,000	28,600	409,400	438,000	438,000
Legal and Reg. Com. Exp.	37,100	21,300	15,800	37,100	37,100
Insurance	7,400	400	7,000	7,400	7,400
Injuries and Damages	47,100	17,600	29,500	45,600	45,600
Welfare and Pensions	160,600	48,200	112,400	160,600	160,600
Rents	800	300	500	500	500
Miscellaneous and Per Diem	7,600	-	7,600	7,600	7,600
Franchise Tax	6,200	(200)	6,400	6,200	7,600
Ad Valorem Tax	186,700	-	186,700	186,700	186,700
Payroll Tax	38,300	1,600	36,700	36,700	36,700
Depreciation Expense	529,600	9,500	520,100	520,100	520,100
Income Taxes	-	(12,000)	12,000	(48,300)	333,100
Total Oper. Rev. Deductions	2,854,900	248,500	2,606,400	2,658,300	3,051,500
Net Operating Revenues	425,600	(280,300)	705,900	622,200	985,100
Average Depr. Rate Base	8,765,000	617,200	8,147,800	8,181,300	8,181,300
Rate of Return	4.86%	(3.80)%	8.66%	7.61%	12.04%

(Red Figure)

**Citizens Utilities Company of California
Sacramento County Water District
1982 Summary of Earnings**

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted Revenues & Expenses</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>					
Metered	\$ 947,400	\$ -	\$ 947,400		
Flat Rate	2,424,400	(115,100)	2,539,500		
Private Fire Protection	43,400	-	43,400		
Other	38,900	-	38,900		
Total Operating Revenues	3,454,100	(115,100)	3,569,200	\$3,454,100	\$4,378,800
<u>Operating Revenue Deductions</u>					
Salaries and Wages	591,400	30,000	561,400	561,400	561,400
Materials, Serv. & Misc.	257,900	68,400	189,500	189,500	189,500
Purchased Power	366,000	(13,400)	379,400	366,000	366,000
Balancing Acct.	-	-	-	-	9,800
Cust. Acct. & Misc.	235,200	69,500	165,700	159,700	159,700
Transportation Expense	101,300	6,200	95,100	101,300	101,300
Telephone and Telegraph	6,900	-	6,900	6,900	6,900
Banking Charges	-	(13,100)	13,100	-	-
Uncollectible Accounts	2,400	-	2,400	2,400	3,000
Admin. Office Expenses	480,900	30,600	450,300	480,900	480,900
Legal and Reg. Com. Expense	37,100	21,300	15,800	37,100	37,100
Insurance	8,300	500	7,800	8,300	8,300
Injuries and Damages	52,700	20,800	31,900	50,900	50,900
Welfare and Pensions	176,800	51,800	125,000	176,800	176,800
Rents	800	300	500	500	500
Miscellaneous and Per Diem	7,600	-	7,600	7,600	7,600
Franchise Tax	6,500	(400)	6,900	6,500	8,300
Ad Valorem Tax	201,800	-	201,800	201,800	201,800
Payroll Tax	45,800	2,200	43,600	45,600	45,600
Depreciation Expense	596,600	18,600	578,000	578,000	578,000
Income Taxes	-	46,300	(46,300)	(137,300)	329,300
Total Oper. Rev.					
Deductions	3,176,000	339,600	2,836,400	2,843,900	3,322,700
Net Operating Revenues	278,100	454,700	732,800	610,200	1,056,100
Average Depr. Rate Base	9,914,700	1,131,600	8,783,100	8,770,900	8,770,900
Rate of Return	2.80%	(5.54)%	8.34%	6.96%	12.04%

(Red Figure)

TABLE III

Citizens Utilities Company of California
Sacramento County Water District
Rate Base

Test Year 1981

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted</u>
Utility Plant in Service	\$25,372,300	\$ 454,400	\$24,917,900	
Depreciation Reserve	(3,815,700)	23,100	(3,832,800)	
Net Utility Plant in Service	21,556,600	477,500	21,079,100	\$21,079,100
Noninterest Bearing CWIP	-	-	-	-
Materials and Supplies	55,000	-	55,000	55,000
Working Cash	58,400	139,700	(81,300)	(36,500)
Common Plant	99,900	-	99,900	99,900
Customers' Advances for Construction	(11,450,800)	-	(11,450,800)	(11,450,800)
Contributions in Aid of Construction	(783,800)	-	(783,800)	(783,800)
Reserve for Deferred Federal Income Tax	(770,300)	-	(770,300)	(781,600) ^{1/}
Total Average Depreciated Rate Base	8,765,000	617,200	8,147,800	8,181,300

(Red Figure)

1/ Effect of ERTA

TABLE IV

Citizens Utilities Company of California
Sacramento County Water District
Rate Base

Test Year 1982

<u>Item</u>	<u>Applicant</u>	<u>At Issue</u>	<u>Staff</u>	<u>Adopted</u>
Utility Plant in Service	\$28,105,800	\$ 973,400	\$27,132,400	
Depreciation Reserve	<u>(4,377,300)</u>	<u>13,600</u>	<u>(4,390,900)</u>	
Net Utility Plant in Service	23,728,500	987,000	22,741,500	\$22,741,500
Noninterest Bearing CWIP	-	-	-	-
Materials and Supplies	62,200	-	62,200	62,200
Working Cash	58,400	144,600	(86,200)	(39,400)
Common Plant	98,700	-	98,700	98,700
Customers' Advances for Construction	(12,183,800)	-	(12,183,800)	(12,183,800)
Contribution in Aid of Construction	(920,100)	-	(920,100)	(920,100)
Reserve for Deferred Federal Income Tax	<u>(929,200)</u>	<u>-</u>	<u>(929,200)</u>	<u>(988,200)^{1/}</u>
Total Average Depreciated Rate Base	9,914,700	1,131,600	8,783,100	8,770,900

(Red Figure)

1/ Effect of ERTA

Description of SCWD

SCWD provides water service within areas of Sacramento County commonly known as Lincoln Oaks, Royal Oaks, Suburban (Rancho Cordova and Rosemont areas), Parkway, City of Isleton, and vicinities. Water is supplied from 86 deep wells located throughout the service area to some 33,000 domestic, commercial, and industrial customers through about 1,930,000 feet of distribution main, primarily asbestos cement pipe ranging in size from 6 inches to 16 inches in diameter. A major water treatment facility known as the Parksite Treatment Facility was recently completed for the removal of iron and manganese which is found in water in the southerly portion of the county. This facility, which has a design capacity of three million gallons per day, can be expanded to six million gallons per day, and includes a one-million-gallon ground level storage tank and related booster facilities.

SCWD is an operating division of Citizens-California which, in turn, is wholly owned by Citizens Utilities Company of Delaware (Citizens). Administrative offices are located in Stamford, Connecticut; Redding, California; and Sacramento, California.

Public Witness Testimony

The public witness testimony and correspondence in these proceedings largely center upon the billing procedures of SCWD with respect to condominium and other residential developments which we discuss in the complaint portion of this decision.

Two SCWD customers complained of poor water quality, and these were located in an area to be served by the Parksite Treatment Plant, which will alleviate or eliminate murky water problems.

Rate of Return

Citizens' cost of capital:

<u>Component</u>	<u>Component Weight</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-term debt	32.8%	10.14%	3.33%
Common Stock	<u>67.2</u>	<u>15.62</u>	<u>10.50</u>
Rate of Return			<u>13.83%</u>

Staff's cost of capital:

<u>Component</u>	<u>Component Weight</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-term debt	32.0%	9.27%	2.97%
Common stock	<u>68.0</u>	<u>12.00</u>	<u>8.16</u>
Rate of Return			<u>11.13%</u>

Adopted cost of capital:

<u>Component</u>	<u>Component Weight</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-term debt	32.0%	9.57%	3.06%
Common stock	<u>68.0</u>	<u>13.20</u>	<u>8.98</u>
Rate of Return			<u>12.04%</u>

Citizens determined its rate of return for SCWD and for its other water utilities in California by analysis of the parent company's capital structure and capital cost as the parent provides financing for its subsidiaries.

We have used year-end 1981 capital components submitted by the staff rather than the year-end 1980 components used by Citizens.

Staff included approximately \$22,000,000 par value subsidiary debt in its development of cost of debt in harmony with past Commission decisions. (D.88126, November 22, 1977.) Citizens did not weight this debt, arguing that it is subsidiary debt of companies not operating in California which were acquired by Citizens with this debt then outstanding. It is inequitable, according to applicant, to effectively lower the cost of debt of Citizens' California entities on the basis of the cost of funds which are clearly not available to them. Reconsideration of our earlier decisions on this question is requested by Citizens.

We reiterate our view that Citizens' subsidiary debt should be included in any rate of return calculation predicated upon all of Citizens' holdings. To do otherwise, we think, would ignore reality and be inconsistent with the basic overall approach adopted both by applicant and by staff.

Citizens' debt contains \$30,200,000 of commercial paper which applicant prices at 15% and staff prices at 14%. As this commercial paper will likely be liquidated through the issuance of additional Citizens' AA+ bonds, we use the best estimate of the interest rate which will likely be applicable to such new bonds in the early months ahead. It seems clear that 15% is a conservative rate to be applied, and we adopt it as the reasonable cost of new bonds for Citizens.

With the foregoing adjustments to the otherwise undisputed cost of the remainder of Citizens' debt, an overall cost of debt of 9.57% is developed which we adopt as reasonable in these proceedings.

Citizens has a Series A and a Series B common stock outstanding which are identical except that the Series A dividends are paid in stock and the Series B dividends are paid in cash. Both series have the same earnings per share and the same book value per share. The A shares sell at a higher price because their dividends, though equal in amount to the B shares cash dividends, are nontaxable until sold and then taxable at capital gains rates instead of the ordinary-income rates.

Citizens used the discounted cash flow (DCF) method of determining cost of equity capital as one approach to rate of return. The indicated result was then tested by the risk premium method and by a comparison with returns of other water companies having the same or similar risks, in the opinion of the analyst.

The DCF equation is that the cost rate for common equity is equal to the dividend per share over the coming year divided by the present price per share times the rate that the dividend is expected to grow in the future.

The dividend rate and the price per share used in the formula are readily ascertainable and produce a yield component of 10.42% on Citizens' Series B common stock.

While determination of the growth rate is largely judgmental, Citizens' expert determined Citizens' historical growth of dividends per share, earnings per share, and book value per share. The average of these selected indicators was 6.90%.

Applying the indicated growth rate of 6.90% and the dividend yield of 10.42% on the Series B common stock, and adjusting for the price difference between Citizens' Series A and Series B common stock, results in a cost of equity under the DCF method of 15.62% for Citizens.

The DCF indicated cost of equity was tested by the standard that a premium in return is required by common stock holders because shares are more risky to hold than are bonds, which are the senior security. With high-grade bonds yielding over 15%, the differential allowance for risk on a return to common equity of 15.62% amounts to less than one percentage point over the high-grade bond yield.

Citizens' believes its analysis of the returns of other water companies supports a 15.62% cost of equity.

In its brief, staff attacks the DCF method and each of the other barometers used by Citizens' rate of return expert, clearly demonstrating that any of the formulae can produce wrong results at any given time.

Essentially, contends the staff, rate of return determinations rest upon the exercise of judgment. Staff's rate of return witness was knowledgeable of, or reviewed, the same data that were used by Citizens. Ten tables of statistics were submitted into evidence. Staff's judgment is that 12% on equity is proper for Citizens at this time.

Staff points out that Citizens has an AA+ credit rating, its shares consistently sell above book value, its subsidiaries are diversified, geographically and as to business conducted, and it has a low debt to equity ratio. Citizens faces no problem in marketing new debt or new equity. Further, 12% return on equity would provide applicant with an after-tax times earned interest coverage ratio of 3.75:1 - comfortably high, according to staff.

When setting a reasonable return we must look at the circumstances of the particular utility and adopt a return which allows it opportunity to issue debt at a reasonable rate, adequately compensate investors and to otherwise have the ability to continue to provide utility service. We look at relative risk, the specific debt equity ratio of the utility and the ability to attract capital.

Staff argues that we cannot simply use the comparison with other water utility returns as Citizens proposes. The particular capital structure of a utility must be considered. As staff notes in its brief (p. 34-35):

"Citizens-Delaware bears an extremely low debt-to-equity ratio, viz., 32:68. (R.T. Vol. 3, p. 288.) Such a capital structure in effect penalizes ratepayers by raising revenue requirements to accommodate the effects of income taxation while providing few, if any, benefits to the ratepayer. To demonstrate the revenue requirement effect, we will use Utility A, with a more typical water utility debt-to-equity ratio of 55:45 and Utility B, approximating Citizens-Delaware, with a 30:70 debt-to-equity ratio. Assuming equal ROE's (15.0%), embedded costs of debt (8%) and rates of tax (50%), we may express the pre-tax costs of debt and equity as follows:

[Percentage debt x Cost of debt] +
[Percentage equity x ROE ÷ tax rate], or,

For Utility A,

$(.55 \times .08) + (.45 \times .15 \div .5) = .179$, or,
17.9 percent; and,

For Utility B,

$(.30 \times .08) + (.70 \times .15 \div .5) = .234$, or,
23.4 percent.

Thus, on the return side of revenue requirement, Utility B has a 30.7 percent greater requirement as compared to Utility A. The difference may be reduced by downwardly adjusting Utility B's ROE to 12 percent. As shown below, this is consistent

with the risks faced by 'Utility B', read Citizens-Delaware, shareholders."

While it is quite possible that a higher debt equity ratio would lower Citizens' overall capital costs, we do not find the staff showing on this point to be compelling. The example given above, for example, makes the questionable assumption that the costs of debt and equity do not change with changing capital structures. Further, in continuing the company's low debt-equity ratio staff overlooks the fact that this capital structure is at least partially responsible for Citizens' high interest coverages and strong bond ratings. Overall, we do not find persuasive guidance in this record as to what the proper debt-equity ratio should be and on what basis this can be concluded.

With respect to Citizens' ability to raise capital and its relative risk we agree with staff's assessment (staff brief p. 36):

"Furthermore, Citizens-Delaware at the present time boasts a AA+ credit rating, highest amongst California water utilities (R.T. Vol. 3, P. 221), a market price for its shares considerably and consistently above book value (R.T. Vol. 3, p. 221), a diversity of services and jurisdictions, insulating it from downswings or adversities faced in any particular service or jurisdiction (R.T. Vol. 3, pp. 208-209, 221), and an extremely low debt-to-equity ratio (R.T. Vol. 3, pp. 221-222). All of these factors, as even Dr. Christy conceded, reduce risk to the Citizens-Delaware investor and combine to make his investment one of the safest, most reliable of utility investments. (R.T. Vol. 3, p. 222.) This is borne out by the fact that, although Salomon Brothers has estimated that

some \$72 billion of corporate bond issues stand 'waiting in the wings,' poised for issuance upon the drop of currently high interest rates, Dr. Christy testified that Citizens-Delaware would face no problems in issuing either new bonds or equity to ready investors. (R.T. Vol. 3, pp. 197, 207-210.)

"20/ Yields on corporate bonds are fixed at issuance. An investor may alter that yield upward or downward by adjusting the price paid for the bond."

On balance we find Citizens has less risk than most other utilities we regulate. We note that recently, since submission of this proceeding, Citizens' rating has been upgraded to AAA. We will adopt 13.2% as a reasonable return on equity, and a return on rate base of 12.04%.

On January 11, 1982, subsequent to submission of this matter, the Commission received a letter from applicant's attorney which discussed rate of return. At its conference on January 19, 1982 we directed that the letter be sent to all parties. No responses were received. Citizens is placed on notice that for the future it is to make its showing in the hearing room and through filing of briefs pursuant to the Commission's Rules of Practice and Procedure.

Operating Revenues

The only difference between SCWD and the staff on operating revenues is in the flat rate category where SCWD estimates revenues of \$2,340,000 for test year 1981, and staff estimates \$2,371,000, a difference of \$31,800. For test year 1982 the difference is \$115,100 at present rates.

Disagreement centers upon the projections of the parties of flat rate customer growth in 1981 and 1982.

SCWD revised its projections downward near the close of hearings based upon its experience for the first four months of 1981. For 1982, SCWD assumed a 10% increase in the 1981 growth of new flat rate customers. This method is said to be more reasonable than staff's method as it relies upon fresher data, observed recent experience, and reflects current economic conditions.

Staff used SCWD's earlier estimate of test year

growth in 1981, adding it to the actual 1980 average flat rate customers to develop a 1981 test year estimate. A 1982 estimate was developed by trending 1974 to 1981 historical data, including its own 1981 estimate.

We think the SCWD estimate, being more current, is the more realistic figure, and we adopt it.

Salaries and Wages

Salaries and wages are estimated by SCWD to be \$492,300 for test year 1981 while staff's estimate is \$467,500, a difference of \$24,800. For 1982, there is a difference of \$30,000.

The difference between staff and SCWD for 1981 is accounted for solely by the staff's using actual wages paid for that year while SCWD annualized the year-end wages to achieve an expense estimate over and above the known expenditures. SCWD urges that annualization is proper since rates are set for the future, and the labor component of such rates should be adjusted into the future to achieve a proper matching of revenues to expenses.

We think actual wages paid or to be paid is the more reasonable charge for salaries and wages in the test years. An allowance for attrition in rate of return is provided for elsewhere in this decision

A vacant position of assistant district manager exists in test year 1981. SCWD seeks to include funding for that position in 1982 as it anticipates either that the former holder of that job will return from temporary assignment at Washington Water and Light Company in that year or that the pending sale of North Los Altos Water Company, another Citizens affiliate, will make the manager of that division available to SCWD at an early date.

Staff argues that the tentative schedule of personnel rotation makes the assumed cost for 1982 speculative and the need for the position unproven. We agree.

Staff estimates for salaries and wages are adopted in test years 1981 and 1982.

Materials, Services, and Miscellaneous

Materials, services, and miscellaneous are estimated by SCWD to be \$233,700 for test year 1981 while staff's estimate is \$188,100, a difference of \$45,600. For 1982 the difference is \$68,400.

SCWD applied a least squares trend from 1973 to 1980 to develop its estimates. Staff used a three-year average for 1978 to 1980 and made a separate calculation of purchased chemicals. SCWD's method shows substantially greater material usage and required maintenance than does the methodology employed by the staff.

However, as SCWD testified during the hearings, its contemplated continuing usage of water on a per customer basis may well be too optimistic given the increased cost of each cubic foot, i.e., more customer conservation may well follow increased rates. This is the staff view as reflected in its estimates, which we adopt as the more reasonable.

Purchased Power

Citizens-California's estimate of purchased power expense is adopted as reflective of the lower revenue estimates we have found to be reasonable.

Balancing Account

An amortization amount of \$9,800 for 1981 and 1982 is shown on Tables I and II, being the application of our adopted treatment of the Tax Initiative Account discussed later in this decision.

Customer Accounting and Miscellaneous

Customer accounting and miscellaneous expenses are estimated by SCWD to be \$210,300 for test year 1981 while staff's estimate is \$147,800, a difference of \$62,500. For 1982 the difference is \$69,500.

A portion of the differences in this expense category results from staff's higher estimate of the number of SCWD customers for 1981 and 1982. As we have adopted applicant's estimate of customers, we must reduce staff's estimate of the cost of customer billing accordingly.

Virtually all of the remainder of the difference between SCWD and staff results from the variance in their respective estimates of billing cost per customer - \$5.42 as computed by SCWD and \$3.49 as computed by staff for test year 1981.

Together with all other water entities of Citizens in California, SCWD is provided services from a centralized data processing department in the Redding administrative office called the billing bureau. A large portion of these services are unrelated to customer billing but are nevertheless charged to customer accounting expense in the Uniform System of Accounts. This improper accounting method employed by SCWD has the effect in this proceeding of requiring staff to construct its billing cost estimate by function to be performed rather than by review of properly classified accounting data.

As the billing bureau costs were shown to have escalated at a rate far in excess of customer growth since 1977, it was incumbent, we think, on Citizens-California to meet the staff's questions of their reasonableness by more than a simple recitation of all the nonbilling functions performed at the data processing center.

SCWD argues that its admitted inclusion of improperly classified amounts in customer expenses saves the administrative

cost of allocation and, in any event, the included costs are all reasonably related to the water business in some manner.

Staff has shown that Citizens' billing cost estimates are substantially higher than those approved in the most recent proceedings and are substantially higher than the billing cost per customer of other comparable water purveyors. In these circumstances, we adopt the staff's estimates of customer accounting expenses as being the more reasonable.

Transportation

Transportation expense is estimated by SCWD to be \$101,300 for test year 1981 while staff's estimate is \$84,200, a difference of \$17,100. For 1982 the difference is \$6,200.

The difference arises by reason of SCWD's updating its data. SCWD's original estimate, accepted by the staff, was derived from historical data through 1979. During the hearings, applicant revised its estimate using 1980 actual data for both 1981 and 1982.

Staff accepts those revisions and we adopt SCWD's transportation expense estimates.

Banking Charges

Staff recommends \$13,100 as banking charges in test years 1981 and 1982 as an expense. This expense inclusion is to compensate for the staff's recommendation that the amount of money that the utility provides to the bank in order to avoid handling charges on various checks that are being processed be excluded from working capital allowance (WCA) in rate base.

SCWD disagrees with the staff recommendation and asserts that, if such recommendation is adopted, the correct banking charges are \$18,700 for test year 1981 and \$21,700 for test year 1982.

SCWD estimates that \$110,000 should be included in WCA for each of the test years under Standard Practice U-16. Citizens-California states that WCA is based upon a lead-lag study for 1979 covering all of Citizens' California properties which, in accordance with established procedures, was submitted to the staff and approved by it on September 25, 1980. The staff takes no exception to WCA for minimum bank balances if its recommended expense allowance in lieu thereof is not adopted.

There is a great deal of testimony on this issue in the record, but very little reliable statistical data. Staff's study is predicated upon a single month's experience of Citizens in 1979. Staff largely relies on the assertion that its recommended bank balancing technique is underway at Continental Telephone Company and General Telephone Company.

The complexity of the record on this issue in this proceeding convinces us that we should first observe the experience of these asserted practitioners of the staff method to see if, in fact, its benefits outweigh its alleged deficiencies before we expand the procedure. Too, we do not wish to open the way to further Stamford Administrative Office (SAO) expenses necessary to supervise banking functions of the modest-sized water utilities operated by Citizens in California.

We do not adopt the proffered banking charges expense at this time and, instead, adopt the minimum bank balances submitted by SCWD as being the more reasonable.

Administrative Office Expenses

Administrative office expenses are estimated by SCWD at \$438,000 for test year 1981 while staff's estimate is \$409,400, a difference of \$28,600. For 1982 the difference is \$30,600.

Administrative office expenses are incurred at three locations: Stamford, Connecticut; Redding, California; and Sacramento, California. Services, including general management and supervision, engineering, accounting, financial, legal, and others, are performed in Stamford, Connecticut, by Citizens for its subsidiaries. Certain management and supervisory, accounting and billing, and other reporting services for Citizens-California and its California affiliates are performed at an administrative office in Redding, California. In addition, certain plant and personnel in the Sacramento office of Citizens-California are used for the benefit of all water operations of that company and those of its affiliated water companies in California.

The expenses for the administrative and managerial functions performed in Stamford are (1) billed directly to the subsidiary, affiliate, or district for which the expenses were specifically incurred; (2) charged to construction (capital accounts); or (3) accumulated in clearing accounts and charged to the subsidiaries, districts, and California affiliates on the basis of a formula developed at earlier Commission direction with staff participation.

SAO expenses were accepted by the staff in total amount, but staff parts company with SCWD on the proper method of distributing these expenses to California properties.

That proportion of SAO expenses which are directly billed by Citizens-Delaware fall less heavily upon California water properties than do those SAO expenses which are indirectly billed as an allocation of indirect expenses. SCWD used its annual survey to develop test year allocations. The most recent

data - those of 1980 - were used, although 1980 shows the lowest ratio of direct billed expenses in the last five years. These ratios show the trend:

<u>Year</u>	<u>Direct - General</u>
1976	1.65:1
1977	1.84:1
1978	1.31:1
1979	1.27:1
1980	0.64:1

Staff contends that the 1980 ratio is an aberration of the declining trend of direct to general expenses which was unsatisfactorily explained by SCWD at the hearings. Therefore, 1980 should be eliminated and a 1976 ratio employed to distribute SAO expenses.

There is no charge that Citizens did not follow past procedures accurately in developing its current 1980 ratio. Staff suggests only that applicant should try harder to bill administrative expenses directly.

We will adopt SCWD's estimate of administrative office expenses as being most reflective of current conditions.

Legal and Regulatory Expense

Legal and regulatory commission expenses are \$37,100 for test year 1981 according to SCWD as opposed to the staff estimate of \$15,800, a difference of \$21,300.

SCWD's original estimate for costs of this proceeding was \$45,400 but actual expense determined at the close of hearings was \$109,085 which, with additional normal legal expense, is amortized over a period of three years.

These expenses, including direct and allocated legal fees together with overhead burdens were determined in accordance with SAO study procedures directed by the Commission and approved by staff. Outside counsel fees of \$17,000 for the SCWD and the complaint case consolidated with it are included in SCWD's figure.

Staff does not dispute that the SCWD expense claimed represents actual time spent by Citizens-California or its parent in preparation and presentation of this case. Staff contends that a limit of prudence was exceeded by SCWD in this and the companion rate cases. This limit assumed as reasonable by staff is approximately the cost allowed in SCWD's last rate case.

A difficulty with staff's argument is that no specific expenditure is shown us to be unreasonable. Staff states that the travel and per diem expenses of Citizens' officers and employees coming to California from corporate headquarters in Connecticut for rate case purposes is unreasonable on its face. We are not told why. Nor does staff suggest that Citizens establish a rate department in California which would, of course, eliminate the bulk of travel and per diem expenses from the east coast.

We agree that these expenses are large, particularly with respect to the size of some of Citizens' divisions involved in companion cases. Yet the staff points to no unnecessary witness, attorney, or consultant appearing in the hearings, and our review of the record indicates none.

Utility legal and regulatory commission expenses, being predominantly actual, are adopted as being the more reasonable in this case.

Insurance

Property insurance expense estimates differ slightly. SCWD's figure is \$7,400 to staff's \$7,000, a difference of \$400.

Staff uses beginning-of-year plant balances in each of the test years to determine its estimate of insured value while SCWD uses average plant balance during each test year.

We adopt SCWD's estimate as being the more reasonable figure for insurance expense.

Injuries and Damages

Expenses for injuries and damages are composed of liability insurance and workers' compensation insurance. SCWD estimates these expenses at \$47,100 for test year 1981 while staff's estimate is \$29,500, a difference of \$17,600.

Liability insurance is obtained by Citizens for all its insurable properties. Both staff and SCWD estimated this expense by apportionment of the total premium to California water properties on a per customer basis.

A difference between SCWD and staff occurs by reason of staff's attempted differentiation of gas properties from nongas properties to factor out alleged higher premiums for gas risks. Staff obtained the appropriate premium for nongas properties, but divided that premium by total connections rather than by total water customers to obtain the per customer rate. Had staff employed the latter calculation, the premium cost per customer would have been very close to SCWD's estimate.

We think the SCWD estimate, derived by spreading total premium expense to all customers, is the more reasonable estimate and we adopt it.

Workers' compensation insurance is also purchased by Citizens-Delaware for all of its working force and the cost allocated to its subsidiaries and divisions. Almost \$16,000 of the total injuries and damages difference between SCWD and staff is reflected in workers' compensation insurance.

SCWD used 80% of test year payroll times standard rates to compute its estimate. Stated rates of the California rating bureau and most recent converted losses were used. The resulting estimate is urged as reasonable in that it recognizes that rates are different in the several jurisdictions in which Citizens-Delaware does business and it employs the most recent loss experience data. We adopt SCWD's estimate as being more accurate than staff's systemwide average of rating experience and its recommended five-year average of loss experience.

Workers' compensation insurance is additionally adjusted to reflect adopted salaries and wages.

Welfare and Pensions

Expenses for welfare and pensions are composed of group insurance, pensions, both direct and allocated, and deferred compensation. SCWD estimates these expenses at \$160,600 for test year 1981 while staff's estimate is \$112,400, a difference of \$48,200.

Staff and SCWD used the same rates and would have arrived at the same estimates in the test year except that staff neglected to include all eligible employees in its calculation. The most recent labor agreement provides that all employees of applicant are now covered with premium fully paid by the employer.

Citizens-Delaware pension plan is managed by an independent actuary, Wyatt Company. The percentage of payroll rate used by SCWD is the overall rate developed by actuarial valuation as of the close of years 1979 and 1980. The Wyatt Company's reported valuation results appear to have been consistently employed by SCWD in reaching its estimates, and its 11.5% factor represents actual payments to the pension fund.

Staff's estimate for pension expense is purportedly a California pension charge based upon payroll and experience peculiar to local water properties. Staff states that its localized expense estimate is preferable to applicant's mere allocation of pension expense to California. No reason for this preference is given, and no reason is presented that the pension expense charge as a percent of payroll should be any different here than it is elsewhere.

Several alleged infirmities are suggested by SCWD to account for the pension expense difference between staff and SCWD, but we do not discuss them as the applicant's estimate seems the more reasonable approach. We adopt the SCWD estimate of pension expense and, since the principles involved are much the same for deferred compensation expense, we adopt SCWD's estimate for the latter category of expense, as well.

Rents

Staff averaged 1979 and 1980 recorded data to estimate rents during the test years here involved in order to reflect recently declining rental fees. The difference between staff and SCWD is \$300.00. We adopt the staff's estimate as more reasonable than SCWD's estimate.

Income Taxes

SCWD determined its test year federal income tax expenses on the basis of its own revenues, expenses, and tax credits as shown on its books, plus a tax deduction for its proportionate share of the interest and debt discount amortization expenses of Citizens, the method heretofore used by the Commission.

In its closing brief, however, our Legal Division recommends that we depart from prior practice and adopt a normalized effective tax rate based upon Citizens' consolidated tax returns. Both the Utilities Division and the Revenue Requirements Division of staff believe that Order Instituting Investigation (OII) 24 is the more appropriate forum for decision of generic tax issues.

We adopt, for this opinion, the income tax expenses as developed by SCWD in accordance with past practice as applicable to these proceedings, adjusted by the known changes to revenue requirement as calculated by our staff.

D.93848 dated December 15, 1981 in OII 24 gives effect to ERTA. This new law causes an increase in federal income tax expenses for ratemaking purposes due to elimination of the full flow-through to ratepayers of accelerated depreciation and investment tax credit on utility plant additions placed in service after December 31, 1980. Staff has developed information reflecting adoption of the conventional normalization method for purposes of applying ERTA. The adopted summary of earnings and adopted rates reflect the results of ERTA. The effect of ERTA in the adopted summary of earnings is a \$10,300 increase in the revenue requirement for 1981 and a \$16,700 increase in 1982.

Public Fire Protection

Under Resolution L-213, issued December 18, 1979, SCWD has billed and collected a fire protection surcharge. As new rates are authorized by this decision, the fire protection surcharge will no longer be separately stated, but will be included in metered and flat rates.

Tax Initiative Account

On June 27, 1978 the Commission ordered all utilities under its jurisdiction to establish a Tax Initiative Account (TIA) to include the differences between the ad valorem taxes paid in fiscal year 1977-78 and the ad valorem taxes for the fiscal year 1978-79 (beginning July 1, 1978). This account was charged with rate reductions attributable to changes in rates from advice letter filings made for the purpose of passing through to ratepayers the reductions caused by Article XIII A of the California Constitution in ad valorem tax expense. The TIA was to terminate on December 31, 1980, and any balance then extant was to be subject to audit and disposition in the next rate proceeding (D.93147, June 2, 1981, OII 19).

SCWD and staff present different methods of determining the balance subject to disposition in this proceeding.

SCWD and staff both compute the tax reduction in the first year (1978-79) by a simple subtraction and agree on the first year amount subject to refund credited to the TIA.

For the second year, SCWD subtracts the base year taxes (1977-78) from the actual 1979-80 taxes and credits that sum to the TIA. No credit is made for the third year where the taxes paid are higher than the base year taxes (1977-78).

SCWD calculates the total amount to be refunded during the life of the TIA to be \$40,783.11. This is reduced by a revenue loss of certain fire protection fees in the amount of \$4,505.00. Property tax-related rate reductions are \$110,172.00, leaving a net overrefund of \$73,893.29.

Staff made the same property tax reduction as did SCWD for the first year. It then assumed that the first year savings would be the same in the second year and until December 31, 1980 when the TIA was to be closed.

Staff agrees with SCWD that there is an overrefund (undercollected) balance of \$29,436.00 in the TIA on its closing date.

SCWD contends that its method of calculation of the TIA balance was approved by the Commission in resolutions dealing with Citizens' telephone operations of which we take official notice. (Advice Letter 316, Resolution T-10295, effective August 3, 1980; Advice Letter 326, Resolution T-10403, effective May 22, 1981.) These resolutions, however, are not controlling precedent. As D.93147 orders, all issues respecting TIA, unaddressed as of June 2, 1981, are reserved for hearing in appropriate rate proceedings. Resolutions and orders respecting TIAs made earlier were confirmed as accomplished facts.

It is clear that the fire protection loss of revenue is not includable in the TIA by definition. It is not an identifiable tax, license, or fee imposed by local governments to offset losses in revenues resulting from adoption of Article XIII A.

With respect to the determination of the overrefund amount, we think the staff's method most closely comports with the intent of OII 19. Staff takes actual first year savings to both utility and ratepayer and extrapolates to the end of year 1980. All savings go to the ratepayers. The amount of overrefund is the difference between those actual tax savings and the over-estimated rate factor computed to distribute the savings.

SCWD's method assumes that the Commission intended the utility to share in tax savings via Proposition 13 after the first year by not being required to pay more than base year taxes (1977-78) even though increased plant and assessment methods

contemplated in Article XIII A would necessarily result in increased taxes to the utility. We did not so intend.

Assume for illustration purposes that SCWD's TIA was allowed to continue. Under staff's method, savings to ratepayers would be permanent. Under SCWD's method, the initial savings to ratepayers would soon be returned to the utility and the TIA would become a balancing account to collect the utility's property taxes from the ratepayers.

We adopt as reasonable the balance of \$29,436.00 in SCWD's TIA as of December 31, 1980. This amount will be accounted for in SCWD's new tariffs and amortized over a three-year period.

Net Utility Plant in Service

SCWD estimates net utility plant in service at \$21,556,600 for test year 1981 as compared to staff's estimate of \$21,079,100, a difference of \$477,500. The difference for test year 1982 is \$987,000.

One area of difference lies in the staff method of deferring 20% of new advances into the following year. Staff contends that SCWD historically has not spent all advances in the year received and relies upon a study showing that the average unspent advance percentage for the last five years is 20% of the advances received in the year. This amounts to \$147,100 in test year 1981 and \$362,100 for test year 1982.

SCWD's testimony is that the average for the last five years does not pertain to today's conditions where business slow-downs and high interest rates dictate more conservative timing of advances. Citizens-California is currently spending advances as received.

We are not persuaded that SCWD has carried the burden of proof on this issue and believe it more reasonable to approve the staff's average until further experience is gained.

A larger area of disagreement between staff and SCWD centers about the weighting of utility plant in service and corresponding treatment of depreciation reserve. With respect to revenue-producing plant, SCWD used 50% as the weighting percentage of new additions to plant during the test years. For nonrevenue-producing plant, SCWD suggests that 100% of new plant additions would be proper. Plant additions are rolled back to the beginning of the year so that rate base in the test years will more closely match the amount it will be as revenues are actually collected.

Staff computed 13-month weighted averages for additions to plant in service for each of the last six years. These percentages ranged from 40 to 45%, and the 43.39% simple average of these was used by the staff.

We have taken official notice of our decisions on this question and note that full year rollback has been approved by us in the past. It has been adopted by staff in the past, as well, generally where step rates were not an issue. Here we are applying an attrition factor to rate of return which is, of course, the purpose sought by SCWD to be served by rolling back rate base additions to the beginning of the test year. In these circumstances, we find it more reasonable to apply the staff weighting method in this case.

A dispute exists with respect to the computation of depreciation reserve. Staff employed a factor 55.51% in calculating depreciation reserve whereas SCWD urges that this percentage should be 43.39% as was applied by staff to plant additions. Staff's showing included a presentation tending to show the accuracy of its method and that depreciation reserve and depreciation charges are not always equal. We find that SCWD has not proved this issue.

We adopt, with modifications stipulated to by staff and applicant, the net utility plant in service as developed by the staff as the more reasonable estimate for both test years.

Working Capital

SCWD estimates working capital or working cash at \$58,400 for test year 1981 while staff's estimate is negative \$81,300, a difference of \$139,700. For 1982, the difference is \$144,600.

In the discussion of bank charges we concluded that a minimum bank balance of \$110,000 should be allowed in this proceeding rather than the estimated bank expense proposed by the staff.

There remains a difference between SCWD and staff of \$29,600 working capital for test year 1981 and \$34,500 for test year 1982. These flow from different estimates of average daily expenses. For example, in test year 1981 SCWD used \$6,657 as average daily expense while staff uses \$8,076.

SCWD developed its lead-lag study premised upon 1979 results of operations. Staff applied 1979 study results to test year expense levels. SCWD argues that it is inconsistent to use test year expense levels and 1979 lag day determinations together, suggesting that if staff is to use 1981 or 1982 expense levels, it should make a new study in accordance with the procedures of Standard Practice U-16 to determine the appropriate lag days.

The method used by staff has traditionally been accepted by the Commission as it gives reasonable test year estimates. We will again adopt it here. The application of the 1979 lead-lag days to the adopted revenue and expenses for 1981 and 1982 results in the adopted working cash allowance of negative \$36,500 for 1981 and a negative \$39,400 for 1982.

Attrition

Staff has calculated an attrition allowance of .83% in rate of return based upon present rates which include negative income taxes.

SCWD objected to the calculation based on the present rates which includes the effect of negative income tax and has calculated an attrition allowance of 2.0% based on proposed rates.

We think the most reasonable approach in this proceeding is to employ adopted rates in estimating attrition which produces an attrition allowance of 0.96%.

Crosswoods' Complaint and Rate Design

Crosswoods, a California nonprofit mutual benefit corporation, and a number of its individual members, complain that it and they are being discriminated against by SCWD and seek reparation.

The facts are not in dispute. Crosswoods is a single-family, attached-home planned development. Each member homeowner owns a dwelling from 1,600 to 2,100 square feet plus a small courtyard or deck. Each member homeowner has an interest in the common area of the development which is improved with swimming pools and gardens maintained by Crosswoods.

Each homeowner with a connection not larger than three-fourth inch in diameter is charged SCWD's flat residential rate for residential properties not exceeding 8,000 square feet in area. Additionally, Crosswoods is charged SCWD's metered rate for its connections which are one and one-half inches and two inches in diameter and serve the common area. Crosswoods, in turn, collects its water bill from its members with the result that each homeowner pays a larger bill than that paid by single-family homeowners on lots not exceeding 8,000 feet in area.

While Crosswoods earnestly argues that this seeming inequity constitutes unlawful action on the part of SCWD and seeks reparation, it is clear that application of its tariffs in this case was correct. We do not see how SCWD could have acted differently in the premises. No reparation is in order. However, the rates can be changed prospectively.

It is, however, equally clear that application of SCWD's tariffs to condominium developments such as Crosswoods, and others who appeared to register similar protests in the rate hearings, does result in higher water bills to members than to other homeowners in the SCWD service area. A question of rate design is thus presented and addressed by the staff.

Staff recommends that Crosswoods continue to be charged metered rates, but that a special flat rate be established for lots under 4,500 square feet in size. All eligible homeowners would pay a small-lot rate set at 75% of the single-family flat rate for lots up to 8,000 square feet. Staff notes that, on average, Crosswoods' members' lots are 3,540 square feet in area.

We adopt the staff's recommendation and rate design proposal and reflect it in the tariffs approved in this decision. Specifically, staff recommended:

- "13.1 The accumulated increases in revenue since January 1, 1976, have exceeded 25%. Therefore, any increases in revenue authorized in this proceeding could be applied to lifeline rates.
- "13.2 The authorized increase be spread equally (by percentage) to service charges, quantity rates and flat rates.
- "13.3 Utility proposes no increase in rates for either private fire protection service or public fire hydrant service. Staff does not object to this proposal."

We find that in all other respects the complaint must be denied. All funds deposited to the Commission in this proceeding will be paid to SCWD.

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test years 1981 and 1982 are reasonable.

2. A rate of return of 12.04% on the adopted rate base of \$8,181,300 for test year 1981 is reasonable.

3. A rate of return of 12.04% on the adopted rate base of \$8,770,900 for test year 1982 is reasonable.

4. SCWD's earnings under present rates for test year 1981 would produce net operating revenues of \$622,200 on a rate base of \$8,181,300 based on the adopted results of operations, resulting in a rate of return of 7.61%.

5. SCWD's earnings under present rates for test year 1982 would produce net operating revenues of \$610,200 on a rate base of \$8,770,900 based on the adopted results of operations, resulting in a rate of return of 6.96%.

6. The authorized increases in rates are expected to provide annual increases in revenues of \$757,100 in 1981 and an additional \$127,500 in 1982.

7. With the rate of attrition of 0.96% the required revenue increase in both 1983 and 1984 is \$172,900 based on the 1982 rate base.

8. Citizens-California level of water service is adequate.

9. The increases in rates and charges authorized for the year 1982 in Appendix A are just and reasonable, and the present rates and charges insofar as they differ from those prescribed, are for the future unjust and unreasonable.

10. Increases in rates authorized for 1983 and 1984 in Appendix B are just and reasonable.

11. Crosswoods has failed to prove any unlawful action on the part of SCWD which would entitle Crosswoods or its members to receive reparation. .

12. The rate design established by this decision is reasonable.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. SCWD's tariffs should be changed to provide a new flat rate residential schedule for lots less than 4,500 square feet in area.

3. The relief requested by Crosswoods should be denied and all sums impounded by the Commission should be paid to Citizens-California.

4. Because of the immediate need for additional revenues, the following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. Citizens Utilities Company of California (Citizens-California), Sacramento County Water District, is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1982 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Sacramento District rate of return on rate base,

adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 12.04%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later.

3. On or after November 15, 1983 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Sacramento District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 12.04%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1984, or 30 days after the filing of the step rate, whichever is later.

4. The relief requested by Crosswoods Homeowner Association and its members is denied and all sums impounded by the Commission related to C.10887 shall be paid to Citizens-California.

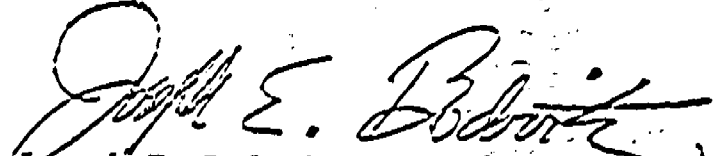
5. By April 1, 1982 Citizens-California shall send to its Sacramento County Water District customers the bill insert set out in Appendix D.

This order is effective today.

Dated February 4, 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director

APPENDIX A

Page 1

Schedule No. SAC-1

Sacramento District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities, subdivisions, and adjacent areas generally known as Cordova, Rosemont, Parkway Estates, Lindale, Foothill Farms, Arlington Heights, Linwood, Loretto Heights, Arden Highlands, Arden Estates, El Camino Terrace, and El Camino Square, and the City of Isleton and vicinity in Sacramento County, and the unincorporated community of Lincoln Oaks and vicinity in Sacramento and Placer Counties.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 5.05
For 3/4-inch meter	5.60
For 1-inch meter	7.60
For 1 1/2-inch meter	10.10
For 2-inch meter	14.00
For 3-inch meter	25.00
For 4-inch meter	34.00
For 6-inch meter	57.00
For 8-inch meter	85.00

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

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	0.181
For all over 300 cu.ft., per 100 cu.ft.	0.251

APPENDIX A

Page 2

Schedule No. SAC-2R

Sacramento District

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated communities, subdivisions, and adjacent areas generally known as Cordova, Rosemont, Parkway Estates, Lindale, Foothill Farms, Arlington Heights, Linwood, Loretto Heights, Arden Highlands, Arden Estates, El Camino Terrace, and El Camino Square, and the City of Isleton and vicinity in Sacramento County, and the unincorporated community of Lincoln Oaks and vicinity in Sacramento and Placer Counties.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single-family residence, including premises, having the following areas:	
4,500 sq.ft. or less	\$5.95
4,500 to 8,000 sq.ft.	7.95
For each additional residence on the same premises and served from the same service connection	5.25
For each 1,000 sq.ft. or part of the area in excess of 8,000 sq.ft.	0.25

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than 3/4-inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. After a meter is installed, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

(END OF APPENDIX A)

APPENDIX B

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

<u>Service Charge</u>	<u>Effective Dates</u>	
	<u>1-1-83</u>	<u>1-1-84</u>
For 5/8 x 3/4-inch meter.....	\$0.20	\$0.20
For 3/4-inch meter.....	0.25	0.25
For 1-inch meter.....	0.30	0.30
For 1 1/4-inch meter.....	0.50	0.50
For 2-inch meter.....	0.60	0.60
For 3-inch meter.....	1.00	1.00
For 4-inch meter.....	2.00	2.00
For 6-inch meter.....	3.00	3.00
For 8-inch meter.....	4.00	4.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	0.007	0.007
For all over 300 cu.ft., per 100 cu.ft.	0.011	0.011

Flat Rates

For a single-family residence, including premises, having the following areas

4,500 sq.ft. or less.....	0.25	0.25
4,500 to 8,000 sq.ft.....	0.30	0.30

For each additional residence on the same premises and served from the same service connection

0.30	0.30
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For each 1,000 sq.ft. or part

of the area in excess of 8,000 sq.ft.

0.02	0.02
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(END OF APPENDIX B)

APPENDIX C

Page 1

ADOPTED QUANTITIES

Company: Citizens Utilities Company of California

District: Sacramento County

	<u>1981</u>	<u>1982</u>
	Ccf(1,000)	Ccf(1,000)
1. <u>Water Production:</u>	14,494.1	15,223.6
Purchased Water PG&E	116.0	116.0
SMUD	14,378.1	15,107.6
Wells	14,494.1	15,223.6
2. <u>Electric Power:</u> 0.86837 KWh per Ccf		Supplier: SMUD Date: 4-1-81
KWh	12,485,500	13,119,000
Cost	\$ 340,500	\$ 357,800
Cost per KWh	\$ 0.0272759/KWh	\$ 0.0272759/KWh
<u>Electric Power:</u> 1.120 KWh per Ccf		Supplier: PG&E Date: 2-9-81
KWh	129,900	129,900
Cost	\$ 8,200	\$ 8,200
Cost per KWh	\$ 0.0629061	\$ 0.0629061
3. <u>Ad Valorem Taxes:</u>	\$ 186.7	\$ 201.8
Tax Rate	0.96463%	0.96463%
4. <u>Net-to-Gross Multiplier:</u>	2.05387	
5. <u>Local Franchise Tax Rate:</u>	0.1930%	
6. <u>Uncollectible Rate:</u>	0.0684%	
7. <u>Metered Water Sales Used to Design Rates:</u>		

	<u>Range-Ccf</u>	<u>Usage - Ccf</u>	
		<u>1981</u>	<u>1982</u>
Block 1	0-3	218,446	239,648
Block 2	> 3	2,760,854	3,029,652
Total Usage		2,979,300	3,269,300
Revenue Adjustment Factor		0.99888	0.99405

APPENDIX C
Page 28. Number of Services:

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Usage-Ccf/Yr.^{1/}</u>	
	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>
Commercial-Metered	3,340	3,665	2,979.3	3,269.3	892.02	892.02
Commercial-Flat	<u>30,194</u>	<u>31,305</u>	<u>10,355.3</u>	<u>10,736.4</u>	342.96	342.96
Subtotal	33,534	34,970	13,334.6	14,005.7		
Private Fire Pnt.	117	141				
Public Fire Pnt.	<u>-</u>	<u>-</u>				
Total	33,651	35,111				
Water Loss @ 8%			<u>1,159.5</u>	<u>1,217.9</u>		
Total Water Produced			14,494.1	15,223.6		

9. Number of Services (by meter size)

<u>Meter Size</u>	<u>1981</u>	<u>1982</u>	<u>Revenue Adj. Factors</u>
5/8 x 3/4"	558 Services	615 Services	0.98697
3/4"	-	-	-
1"	1,619	1,784	.98505
1-1/2"	325	359	.98895
2"	666	734	.99733
3"	126	127	.99730
4"	28	28	.99758
6"	14	14	.99992
8"	4	4	.99352
10"	<u>-</u>	<u>-</u>	-
Total	3,340	3,665	

^{1/} Estimates arrived at with the use of the Modified
Bean and "Committee" Methods.

APPENDIX C
Page 3

10. Number of services - flat rate (by lot size)

<u>Lot Size</u>	<u>1981</u>	<u>1982</u>
Up to 8,000 sq.ft.	22,809	23,662
8,001 - 9,000 sq.ft.	3,121	3,238
9,001 - 10,000 sq.ft.	1,680	1,743
10,001 - 11,000 sq.ft.	1,174	1,218
11,001 - 12,000 sq.ft.	571	593
12,001 - 13,000 sq.ft.	320	332
Over 13,000 sq.ft.	<u>519</u>	<u>519</u>
Total	30,194	31,305
Additional single-family units	578	578
Revenue Adjustment Factor (Average)	1.01625	1.01625

APPENDIX C
Page 4INCOME TAX CALCULATION

Item	1961	1962
	(Dollars in Thousands)	
<u>State Franchise Tax</u>		
Operating Revenue	\$ 4,037.6	\$ 4,378.8
<u>Expenses</u>		
O&M, A&G, and Taxes Other Than Income	2,198.3	2,415.4
<u>Deductions and Adjustments</u>		
Clearing Accounts	(35.2)	(40.0)
Deductible Expense Capitalized	71.1	85.4
Interest	255.3	274.9
Subtotal - Deductions	291.2	320.3
State Tax Depreciation	1,133.3	1,254.4
Net Taxable Revenue	414.8	388.7
CCFT at 9.6%	39.8	37.3
<u>Federal Income Tax</u>		
Operating Revenue	4,037.6	4,378.8
Expenses	2,198.3	2,415.4
Deductions	291.2	320.3
FIT Depreciation	784.5	864.0
CCFT	39.8	37.3
Taxable Income	723.8	741.8
Federal Income Tax at 46%	332.9	341.2
Graduated Tax Adjustment	(0.5)	(0.5)
Investment Tax Credit	(39.1)	(48.1)
FIT	293.3	292.0

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Citizens Utilities Company of California's
Sacramento County Water District

One item of expense in the rate increase recently granted to Citizens Utilities Company of California for its Sacramento County Water District for the year 1982 by the Public Utilities Commission, amounting to \$16,700 was attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future as a percent of your bill.

(END OF APPENDIX D)