

Decision 82 07 014 JUL 7 - 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
FRANCIS LAND AND WATER COMPANY for)
authority to increase rates and) Application 60303
charges for water service in the) (Filed February 27, 1981)
City of Ferndale and vicinity,)
in Humboldt County.)

John H. Engel, Attorney at Law, for
Francis Land and Water Company,
applicant.

Sherwin H. Wiersig, Certified Public
Accountant, for City of Ferndale,
protestant.

Lynn T. Carew, Attorney at Law, and
Edward Cooke, for the Commission
staff.

INTERIM OPINION

In Application (A.) 60303, Francis Land and Water Company (Francis), a subsidiary corporation of Citizens Utilities Company (Citizens), a Delaware corporation, seeks an increase in water rates of \$151,200, or an increase of 146.8% in 1981; \$12,400, or 4.8% in 1982; and \$11,500, or 4.3% in 1983. The company requests step rates designed to produce a rate of return of 13.2% on rate base in 1981, 1982, and 1983.

A duly noticed and consolidated hearing was held before Administrative Law Judge (ALJ) Orville I. Wright in Ferndale on June 2 and 3, 1981, and in San Francisco on June 11 and 12, 1981. The final submission date for the last of the issues involved in these proceedings was September 14, 1981.

The City of Ferndale (Ferndale) appeared as a protestant and was represented at the hearings on June 2, 3, and 11, by

Certified Public Accountant Sherwin H. Wiersig, who presented an opening statement, cross-examined witnesses, and filed a closing brief. In Ferndale the proceedings were well-attended, approximately 20 customers questioning the necessity for and the magnitude of the proposed rate increases. A petition filed in opposition to the increase contained 479 signatures; there are 640 metered customers.

Messrs. W. B. Stradley, Edward W. Schwartz, and Arthur Smithson presented evidence on behalf of Francis. Edward Cooke testified for the Commission staff.

Summary of Decision

Although Francis requests a rate increase of \$163,600, it is granted a general rate increase of \$52,500 for test year 1982, an increase of 50.19% over present rates.

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

Table I shows revenues, expenses, and rate base for test year 1982 as developed by applicant, Ferndale, and staff, differences being labeled "at issue." Adopted revenues and expenses at present rates and at adopted rates are also depicted. Tables II and III show allowed and disallowed additions to rate base, adopted rate base for test year 1982, and depreciation reserve adjustments in support of the adopted rate base.

Discussion of some issues resolved in this proceeding is contained in Decision (D.) 82-02-059, Sacramento County Water District. Issues peculiar to Francis and issues raised by the intervention of Ferndale are discussed. In this proceeding we find Francis has not met its burden of proof to justify certain expense and plant investment.

TABLE I

Francis Land and Water Company
1982 Summary of Earnings

Item	Applicant	At Issue	Ferndale/ Staff	Adopted Revenues & Expenses	Adopted Rates
<u>Operating Revenues</u>					
Metered	\$104,200	\$ -	\$104,200	\$ -	\$156,700
Flat Rate	-	-	-	-	-
Private Fire Protection	400	-	400	-	400
Other	-	-	-	-	-
Total Operating Revenues	104,600	-	104,600	104,600	157,100
<u>Operating Revenue Deductions</u>					
Salaries and Wages	44,900	17,500	27,400	27,400	27,400
Materials, Serv. & Misc.	4,300	-	4,300	4,300	4,300
Purchased Power	4,700	300	4,400	4,400	4,400
Balancing Acct. (T.I.A.)	-	-	-	-	-
Cust. Acct. & Misc.	4,000	1,400	2,600	2,600	2,600
Transportation Expense	2,500	-	2,500	2,500	2,500
Telephone and Telegraph	600	-	600	600	600
Banking Charges	-	(100)	100	-	-
Uncollectible Accounts	100	-	100	100	150
Admin. Office Expenses	15,900	12,400	3,500	3,500	3,500
Legal and Reg. Com. Expense	3,300	1,000	2,300	3,300	3,300
Insurance	600	-	600	600	600
Injuries and Damages	2,400	1,400	1,000	2,400	2,400
Welfare and Pensions	10,600	8,150	2,450	2,450	2,450
Rents	400	-	400	400	400
Miscellaneous and Per Diem	600	-	600	600	600
Franchise Tax	-	-	-	-	-
Ad Valorem Tax	9,600	700	8,900	6,700	6,700
Payroll Tax	3,400	1,300	2,100	2,100	2,100
Depreciation Expense	18,200	7,900	10,300	11,500	11,500
Income Taxes	-	-	-	-	31,300
Total Oper. Rev. Deductions	126,100	51,950	74,150	75,450	106,800
Net Operating Revenues	(21,500)	-	30,450	29,150	50,300
Average Depr. Rate Base	716,700	337,168	379,532	417,600	417,600
Rate of Return	(3.00)%	-	8.02%	6.98%	12.04%

(Red Figure)

TABLE II

Francis Land and Water Company
Rate Base

Test Year 1982

Item	Applicant	At Issue	Staff	Adopted
Utility Plant in Service	\$890,600	\$ 51,000	\$839,600	\$581,000
Depreciation Reserve	164,200	2,800	161,400	148,600
Net Utility Plant in Service	726,400	48,200	678,200	432,400
Noninterest-Bearing CWIP	900	900	900	900
Materials and Supplies	32,600	22,400	10,200	14,000
Working Cash	3,300	3,300	3,300	3,300
Common Plant	(12,600)	(11,600)	(1,000)	(1,000)
Customers' Advances for Construction	(2,800)	11,400	(14,200)	(14,200)
Contributions in Aid of Construction	(31,100)	(500)	(30,600)	(17,800)
Reserve for Deferred Federal Income Tax	716,700	69,900	646,800	417,600
Total Average Depreciated Rate Base				

(Red Figure)

Francis Land and Water Company, et al. v. Public Service Commission, et al.

Description of Francis

Francis provides water service in Ferndale and vicinity in Humboldt County. The main source of water is from horizontal wells, springs, and one vertical well, the Van Ness. Well water is treated for removal of iron and manganese by the Van Ness filtration plant. Francis' plant includes two concrete reservoirs and five collection tanks with a total storage capacity of 1,363,400 gallons and approximately 57,000 feet of main.

Ferndale is the 17th smallest incorporated city in California. It is roughly rectangular in shape, and covers an area of approximately one square mile. Nearly one-fourth of the land is zoned agricultural-exclusive since 1967. There have been no annexations of surrounding farmland to the city in more than 50 years and none are planned. Official census bureau population in 1970 was 1,352, and the recent census of 1980 showed 1,387, a net gain of 35 residents in 10 years.

Francis is a subsidiary of Citizens, a Delaware corporation. Administrative offices are located in Stamford, Connecticut; Redding, California; and Sacramento, California.

Public Witness Testimony

The public witness testimony and correspondence in this proceeding were directed at the necessity for and size of the proposed rate increases, there being general agreement that the quality of the water and of the service was good. As Ferndale entered an appearance and participated in the hearings, most customers, although present, yielded to their representative in expressing their views.

Salaries and Wages

Francis estimates salaries and wages at \$37,600 for test year 1981 while staff's estimate is \$25,000, a difference of \$12,600. For test year 1982, the difference is \$17,500.

At issue is one position which staff asserts is unnecessary by reason of historical data and the physical size, service requirements (640 metered customers), and basic simplicity of the system. This position was unfilled at the time of the hearings, but was being advertised by word of mouth, according to Francis.

Ferndale joins staff in opposing inclusion of the contested position in operating results, noting that the number of services increased only from 620 in 1975 to 640 in 1979, an average of four per year. This rate of growth, and Francis' projection of only 15 additional customers in the next three years, tends to support staff's view that the position at issue is superfluous. ✓

While not entirely clear, the record reasonably supports the analysis that the presently employed parttime clerical workers and one field service representative are adequate to Francis' needs. A second fulltime field employee was employed from November 1979 to May 1981, but did not have the required water treatment operator's certificate until April 1981. Promptly following the second fieldman's qualification, the first retired.

Francis informs us in its brief that the job in question has now been filled and asserts that staff's failure to investigate whether the system can in fact be operated by only one fulltime serviceman renders its opinion a poor substitute for what is called management's studied operating decision.

We find no persuasive evidence in the record documenting the need for two fulltime field representatives at Francis and will adopt the staff and Ferndale estimates for salaries and wages.

Ad Valorem Taxes

Ad valorem taxes are based upon plant adopted in this decision.

Tax Initiative Account (TIA)

Francis' results of operations for test year 1982 requires ✓
no adjustment for TIA.

Economic Recovery Tax Act (ERTA)

As there are no additions to plant recognized for
ratemaking purposes in this decision, no adjustment for ERTA is in
order.

Ferndale's Position

A number of the issues shown in Table I are resolved and
supported by our discussion in D.82-02-059, Sacramento County Water
District, as they are common to several of Citizens' cases where only
the staff and applicant were parties. Here, however, the
intervention and participation of Ferndale requires us to review the
record anew on such issues as administrative office and welfare and
pensions expenses predominately generated out of state, and on the
issue of rate base necessarily and reasonably added since the last
rate proceeding.

Ferndale's closing brief argues that the cited categories
of expenses and their projected huge increases are unsupported by the
evidence and that the same is true of rate base additions. Given the
stable nature of the Francis system, the paucity of service
complaints, and the demographics of Ferndale itself, we are cautioned
to consider Francis' responses on cross-examination to determine
whether the necessity of certain expenditures has been demonstrated
by Francis.

In order to define the issues between Ferndale and Francis
numerically, we insert in Table I some adopted results from the last
rate proceeding, D.88600, March 21, 1978, A.56700. At issue are the
following increases over D.88600: (1) administrative expense of
\$12,400, representing an increase of 354%; (2) welfare and pensions
of \$8,150, representing an increase of 333%; (3) depreciation expense
of \$7,900, an increase of 77%; and (4) rate base of \$337,168,
representing an increase of 89%.

Administrative office expenses and, so far as they reflect salaried administrative personnel, welfare, and pensions expenses are incurred at Stamford, Redding, and Sacramento, and a proportion of these expenses are assigned to Francis. Ferndale sought to question Francis on the propriety of these costs and the reasons underlying their rapid and substantial escalation. Francis was unprepared to justify the items questioned either at Ferndale hearings or at San Francisco. Ferndale accordingly suggests that Francis has not met its burden of proof in those expense categories.

Francis contends that the questioned expenses were submitted to the staff and, since no staff disagreement was registered, they should be considered just and reasonable.

This Commission, however, invites participation by public entities and others in its proceedings, and Ferndale is as much entitled to join issue with Francis on elements of its presentation as is any other party. Whether staff is satisfied on any given matter is not necessarily determinative in our evaluation of the merits of the issues raised by Ferndale.

On the record before us Francis has failed to carry its burden of proof, and we will adopt the levels of administrative and welfare and pensions expenses set forth in D.88600.

Additions to rate base since the last proceeding and concomitant depreciation expense are likewise questioned by Ferndale. Rate base has increased from \$379,532 in 1978 to \$716,700 in 1981. Ferndale does not dispute that funds have been expended but earnestly argues that customers should not be burdened by additions to rate base which are not substantiated as being necessary.

Francis contends that all expenditures were reasonable and that \$145,419 of construction was ordered by the Commission in D.88600. It notes that the Commission's order to submit a three-year construction plan of system improvements was without explanatory comment and made on a record that concluded that service was good for this system. Although Francis filed a petition for rehearing of D.88600, no contention was made that the ordered construction plan was unnecessary and unsupported by the staff investigation reported on the record.

D.88600 was issued on March 21, 1978. On August 14, 1978 a proposed construction budget of \$94,800 was submitted to replace approximately 3,550 feet of 2-inch and 4-inch main with 8-inch asbestos cement pipe. This program was approved by a letter from the Executive Director on November 9, 1978, and all construction was completed by the time of the hearings in June 1981 except for a 250-foot segment on Watson Avenue at a projected cost of \$5,300.

Ferndale offers to prove that there are only five services on Watson Avenue, that no customer there has experienced any lack of pressure, water shortage, or other service deficiency, and that rated capacity of the 2-inch existing line is seven times actual usage. Why, asks Ferndale, replace this line with a main capacity 50 times in excess of the actual and projected needs of the residents on the street in question?

As late as June 2, 1981 Francis' principal witness on rate base did not know why the completed replacements were initially ordered by the Commission (RT 84):

"Q Why did the Commission require a plan?

"A I don't know. I was going to ask that same question myself. It was surely not because of any service deficiencies, because there were none in the last rate proceeding. I can't answer that. I don't know."

A search of the record yields no evidence that Francis ever formally objected to the Commission order in D.88600 or attempted informally to advise the Commission that additional construction was not required by the needs of the customers in its service area.

Instead, Francis spent the \$145,419 on main replacements and additional sums to double the capacity of its filtering plant and for other main replacements. If Francis cannot justify the first \$145,419 of plant additions except to argue that the Commission ordered a plan, what reason exists to support additional plant expenditures?

Francis' exhibits show that it spent \$496 on miscellaneous projects under \$1,000 in 1980. It proposes to include \$2,000 for such projects in 1981 and \$2,000 in 1982.

Francis spent nothing on miscellaneous projects over \$1,000 in 1980. It proposes to include \$5,000 for such projects in 1981 and \$5,000 in 1982.

Francis spent \$2,500 on meters and services in 1980. It proposes to include \$6,000 for these items in 1981 and \$7,000 in 1982.

Ferndale points out that Francis' plan to replace at least 277 meters from 1980 through 1982 out of a total of 640 meters would indicate that all meters would be replaced each seven years although rated useful life of this equipment is 40 years.

Summarizing rate base adjustments, the difference between adopted rate base of \$417,600 and Francis' rate base of \$716,700 is \$299,100 (see Table I). This difference is made up of: \$94,800, being the proposed construction budget submitted to the Executive Director on August 14, 1978, for which no need was shown on this record; \$50,619, being cost overruns on that budget; and \$153,681, being further plant expenditures made without application to the Commission.

It may well be that the Commission itself erred in ordering unspecified improvements to be made by Francis in D.88600. Certainly the findings in that decision are inapposite to the main replacement program submitted by applicant at a projected cost of \$94,800. A requested 25% increase in rate base to support main replacements where there are no service complaints would rationally seem to be of sufficient moment to invite our close scrutiny before approval. We invite the parties to present evidence on this issue in the further hearings.

We conclude that Francis has failed to prove reasonableness and necessity for all additions to rate base it proposes in this

proceeding. We will adopt rate base as shown on Tables II and III being beginning of year plant for 1979 with appropriate depreciation reserve adjustments. Our record shows Francis made improvements which exceeded the cost projected in its improvement plan as well as adding plant additions for items not covered in the improvement plan. The prudence of these costs and additions has not been demonstrated. We will keep this proceeding open and give Francis the opportunity to justify including the \$299,100 in rate base. We will schedule a further hearing in Ferndale after July 1, 1982 and after Citizens complies with Ordering Paragraph 5 of D.82-05-038 on its A.60285 (Felton District).

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test year 1982 are reasonable.
2. A rate of return of 12.04% on the adopted rate base of \$417,600 for test year 1982 is reasonable.
3. Francis' earnings under present rates for test year 1982 would produce net operating revenues of \$29,150 on a rate base of \$417,600 based on the adopted results of operations, resulting in a rate of return of 6.98%.
4. Francis' level of water service is good.
5. 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.
6. 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. Because of the immediate need for additional revenues, the following order should be effective on the date of signature.

INTERIM ORDER

IT IS ORDERED that:

1. Francis Land and Water Company 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 Series 96. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. Further hearings will be held on the question of the reasonableness of rate base.

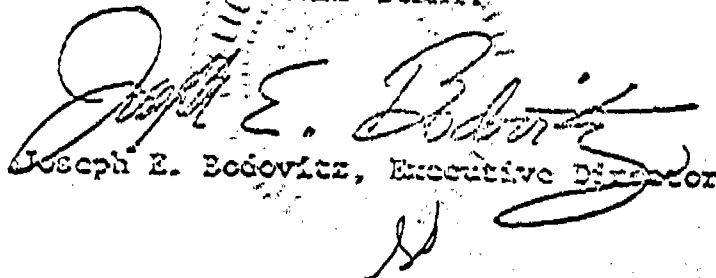
This order is effective today.

Dated July 7, 1982, at San Francisco, California.

RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

Commissioner John E. Bryson, being necessarily absent, did not participate.

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


Joseph E. Bodovitz, Executive Director

APPENDIX A

FRANCIS LAND AND WATER COMPANY
Schedule No. 1GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 5.75	(I)
For 3/4-inch meter	7.00	
For 1-inch meter	9.00	
For 1-1/2-inch meter	12.00	
For 2-inch meter	16.00	
For 3-inch meter	30.00	
For 4-inch meter	41.00	
For 6-inch meter	69.00	
For 8-inch meter	103.00	(I)

Quantity Rates:

First 300 cu. ft., per 100 cu. ft.	\$ 1.04	(I)
Over 300 cu. ft., per 100 cu. ft.	1.54	(I)

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

(END OF APPENDIX A)

INTERIM ORDER

SS IT IS ORDERED that, ^{7/10} Francis Land and Water Company 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 Series 96. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated JUL 7 1982, at San Francisco, California.

SS 2. Further hearings will be held on the question of the reasonableness of rate base.

RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

Commissioner John E. Bryson,
being necessarily absent, did
not participate.