

Decision 83 95 011 MAY 4 1983

**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 Montara )  
Water District. )

Application 60253  
(Filed February 10, 1981)

(See Decision 82-05-076 for appearances.)

Additional Appearances

Allan Kass, for Moss Beach-Montara Committee  
for Fair Water Rates, interested party.  
Mary McKenzie, Attorney at Law, for the  
Commission staff.

O P I N I O N

On February 10, 1981 Citizen's Utilities Company (Citizens) filed its application to increase rates and charges for water service in its Montara Water District (Montara). Montara provides service to the communities of Montara, Marine View, Farallone City, Moss Beach, and adjacent areas of San Mateo County. Hearings were held May 21 and 22, 1981 in El Granada and on June 15 and 16, 1981 in San Francisco. On May 18, 1982 Decision (D.) 82-05-076 granted an increase in annual revenues of \$357,900 in 1981 and \$31,000 in 1982. On June 14, 1982 Citizens filed an application for rehearing or modification of D.82-05-076 to correct (1) the customers and consumption used in calculating the rates, (2) understated legal and regulatory expenses, and (3) overstated customers advances for construction deducted from rate base.

D.82-08-058 dated August 4, 1982 granted rehearing limited to the receipt of evidence and arguments on the issues of (1) the amount of metered water consumption, (2) the appropriate amortization period for legal and regulatory expenses, and (3) the amount of customers' advances for construction in estimated test year 1982. Rehearing, limited to the filing of concurrent briefs, was also granted on the proper method of calculating compensation for the deferral of revenues, including the proper interest rate.

D. 82-11-054 affirmed the calculation. D.82-08-058 also corrected the number of metered customers from 1,388 to 1,333.

The limited rehearing was held December 5 and 6, 1982 in San Francisco. Testimony and exhibits were presented by Citizens and the staff. The matter was submitted subject to filing of concurrent briefs January 31, 1983.

Amount of Metered Water Consumption

The major area of dispute between Citizens and the staff was the estimate of consumption for test year 1982. Citizens based its original hearing consumption estimate for the small user class on recorded 1979 consumption. The staff used an average for the years 1978, 1979, and 1980.<sup>1</sup> Citizens accepted staff's determination of revenues at present rates which reflected the more current consumption data. Thus the total consumption originally used by both Citizens and staff was 166,798 Ccf. In calculating rates, D.82-05-076 used consumption of 195,702 Ccf. This higher consumption figure results in the rates being lower than is required to produce the revenues authorized by the decision.

---

<sup>1</sup> The 1980 data was not available to Citizens at the time the application was filed.

Citizens states that the consumption stipulated to and calculated by the staff was 166,798 Ccf. It argues that the consumption quantities used in D.82-05-076 does not appear in the record nor is its derivation discussed in the decision. Staff does not dispute this allegation but states that the original staff witness erred in determining small user consumption levels. It states the error was made by the witness in analyzing the water use tables supplied by Citizens. It states the witness incorrectly divided total annual small user consumption by the number of bills instead of by the number of customers. Annual usage was originally calculated by staff at 97.14 Ccf per connection or 129,198 Ccf. (1,330 connections x 97.14 Ccf = 129,198 Ccf). Staff insists the correct consumption figure based on a multiple regression analysis figure should be 137,788 Ccf.

In calculating small user consumption which it now urges we adopt, staff used a modified Bean method based on historical annual sales adjusted for rainfall and temperature. This multiple regression analysis resulted in staff revised estimates of 103.6 Ccf for average annual sales per connection or 137,788 Ccf. Staff points out that recorded sales to small users for 1982 totaled 137,518 Ccf.

For large users, staff states it agrees with the 37,600 Ccf originally submitted by Citizens. Staff states its witness in the original proceeding underestimated large user consumption and that Citizens estimate should be used to calculate rates. Staff urges rejection of 1982 actual large user consumption of 26,544 Ccf caused by the erratic usage pattern of the largest user.

Citizens states staff's approach of increasing the usage for small users based on a modified Bean extrapolation using recorded data while ignoring actual recorded usage for large users, is inconsistent. It states that if staff's revised small user consumption based on recorded data is used consistency and fairness require use of recorded data for large users.

The staff's regression analysis of small user consumption based on recorded data of 137,788 Ccf is almost identical to 1982 recorded sales of 137,518 Ccf. Recorded data for the large user would obviously be more accurate than either staff or Citizen's estimate for this class of customer. We believe that consistency and fairness require that if recorded data is used for one class of customer when available it should also be used for other classes. Accordingly, the correct consumption for calculating rates for the 1982 test year is 164,332 Ccf (137,788 Ccf for small users based on staff's regression analysis using recorded data and 26,544 Ccf for large users recorded 1982 consumption).

During its presentation, staff attempted to introduce evidence concerning the resale customer as it relates to metered water consumption. Staff argued that it determined that \$9,600 of annual expense should not be allowed since this charge is associated with a contract for resale with Half Moon Bay Properties.

Citizens objected to the introduction of any evidence relative to resale. It argues that there was no issue of resale at the original hearing and staff did not include such amounts in either consumption or revenue. It states the question of lease payments was addressed at the original hearing with the amount included in test year expenses and was not set for rehearing.

The ALJ correctly sustained Citizens objection to the introduction of this issue.

Legal and Regulatory Expense  
Expense Amortization

D.82-05-076 adopted Citizens actual rate case preparation and hearing expenses of \$11,116. It also adopted litigation costs of \$56,284 associated with Citizens water supply in San Mateo County. The decision stated we were adopting a 3-year amortization, or \$25,800, for these expenses. In the summary of earnings table in the decision, Table 11 page 5, however, legal and regulatory expenses are \$16,400, a difference of \$9,400.

Staff argues that since the \$56,284 expense was incurred over a 6-year period, recovery should be over the same time period. It also argues that even a 6-year recovery adds approximately \$1.20 to each customer's bill and that the magnitude of the increase granted dictates a 6-year amortization for this expense.

Citizens states that incorrect expense reduces the revenue requirement and rates. It states that staff's argument was rejected in D.82-05-076 and that the decision should be corrected to adjust the inadvertent error of amortizing the litigation expense over 6 years.

Although we recognize that an error was made in amortizing the litigation expense we agree with the staff that with the magnitude of the increase granted and the fact it was incurred over a 6-year span, it is reasonable to amortize this expense over 6 years.

Customer Advances for  
Construction - Test Year 1982

Citizens states that the amount of customer advances for construction included in test year plant additions, which are added to rate base, should be the same as the amount used to determine the customer advances for construction which are deducted from rate

base. If not the same, the rates will either reflect a return on funds that are supplied by the customer, or they will not provide a return on funds supplied by the company.

The Commission adopted staff's utility plant in service in D.82-05-076 but incorrectly adopted Citizens figures for customer advances for construction instead of the amount staff included in the adopted utility plant in service.

At the rehearing, Citizens witness stated that any adjustment to customer advances for construction should use the actual average balance for 1982. Exhibit 52 introduced by Citizens shows actual 1982 average balance for customer advances as \$309,300. The witness conceded that any adjustment should not be more than this amount.

After rehearing the staff recommends that since the actual average balance for customer advances for construction is \$309,300 it should be adopted and the account adjusted accordingly.

Though the staff originally recommended against any change in the amount of advances for construction findings in D.82-05-076, after rehearing it recommends an adjustment using the recorded figures. We agree that this account should be adjusted to reflect actual figures. The staff recommendation will be adopted.

Findings of Fact

1. D.82-05-076 dated May 18, 1982 authorized Citizens to increase water rates in its Montara District over existing rates by \$388,900.

2. Application for rehearing filed by Citizens alleges that (1) the rates authorized would not produce the annual revenues found reasonable, (2) the amount of legal and regulatory commission expenses adopted were incorrectly calculated, (3) the decision

adopted an incorrect amount of customers' advances for construction which understates test year rate base, (4) the decision incorrectly calculated compensation for the deferral of revenue, and (5) the decision subjects the authorized 1982 rate increase to further review.

3. D.82-11-054 affirmed the method used to determine compensation for the deferral of revenue.

4. D.82-08-058 granted rehearing limited to the receipt of evidence and argument on (1) the amount of metered water consumption, (2) the appropriate amortization period for legal and regulatory expenses, and (3) the amount of customer advances for construction in test year 1982.

5. At the original hearing consumption for small users of 166,798 Ccf was stipulated to by Citizens and staff.

6. D.82-05-076 used small user consumption of 195,702 Ccf to design rates.

7. Using a higher consumption figure results in rates lower than required to produce the revenue found reasonable.

8. Staff's modified Bean method, adjusted for temperature and rainfall, estimates annual sales to small users at 137,788 Ccf. Recorded small user sales for Montara were 137,518 Ccf.

9. Test year estimate for large users was 37,600 Ccf. Recorded large user consumption was 26,544 Ccf.

10. Staff's multiple regression analysis using recorded data is an accepted method of determining metered water consumption.

11. Consistency requires that if recorded data is used to determine small user consumption, available recorded data should also be used to determine large user consumption.

12. The correct amount of metered water consumption to design rates for test year 1982 is 164,332 Ccf (137,788 Ccf for small users plus 26,544 Ccf for large users).

13. The amount of water for resale was not at issue and was properly excluded from the rehearing.

14. The legal and regulatory expenses adopted in D.82-05-076 of \$77,400 were to be amortized over 3 years.

15. The legal and regulatory expenses adopted in D.82-05-076 included \$56,284 in litigation expenses incurred over a 6-year period.

16. The Summary of Earnings Table in D.82-05-076 lists legal and regulatory expense as \$16,400, a total of \$49,200 for 3 years.

17. The \$16,400 legal and regulatory expense in the Summary of Earnings Table in D.82-05-076 amortized the \$56,284 over a 6-year period.

18. Because of the magnitude of the increase granted and the fact that the litigation expense was incurred over a 6-year period, it is reasonable to amortize this expense over a 6-year period.

19. D.82-05-076 adopted staff's recommendation for utility plant in service and Citizens estimate of new customers advances for construction.

20. Consistency requires that the amount of customer advances for construction included in test year plant additions should be the same as the amount used to determine customer advances for construction which are deducted from rate base.

21. Actual average balance for customer advances for construction for 1982 is \$309,300.

22. Staff and Citizens agree that the correct amount for rate base deduction for customer advances for construction is \$309,300.

23. The change in rates authorized by this decision will increase revenues by approximately 16%.

#### Conclusions of Law

1. D.82-05-076 and D.82-08-058 should be modified as set forth in the findings of fact in this proceeding.

2. Citizens should be authorized to file revised rate schedules for water service consistent with the findings of fact in this proceeding.



3. Because D.82-05-076 noted the immediate need for additional revenue and was effective the date of signature, this order should also be effective on the date of signature.

O R D E R

IT IS ORDERED that Citizens Utilities Company of California, Montara Water District, is authorized to file the revised rate schedule in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date which shall be 5 days after filing.

This order is effective today.

Dated MAY 4 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

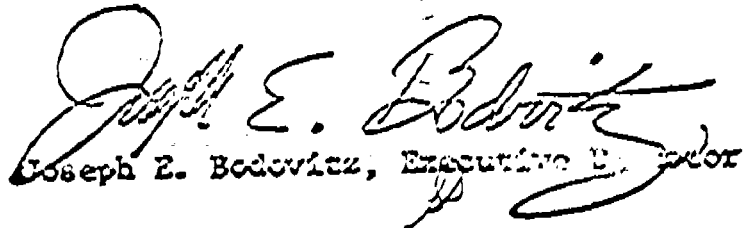
VICTOR CALVO

PRISCILLA C. CREW

DONALD VIAL

Commissioners

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

  
Joseph E. Bodovick, Executive Director

APPENDIX A

Schedule No. MO-1  
Montara Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Montara, Farallone City, Moss Beach and Marine View, and vicinity,  
 San Mateo County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
For the first 300 cu.ft., per 100 cu.ft. ....	\$ 1.78	(I)
For all over 300 cu.ft., per 100 cu.ft. ....	2.65	(I)
 Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 16.00	(I)
For 3/4-inch meter .....	17.60	 (I)
For 1-inch meter .....	24.00	
For 1 1/4-inch meter .....	32.00	
For 2-inch meter .....	43.00	
For 3-inch meter .....	80.00	
For 4-inch meter .....	109.00	

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

(T)  
|  
(T)