

Decision No. 87609 JUL 19 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of JACKSON WATER WORKS, INC., to increase its rates and charges for its water system serving the City of Jackson and adjacent territory in Amador County.

Application No. 55430
(Filed January 7, 1975)

John H. Engel, Attorney at Law, for applicant.
David H. Rule, Attorney at Law, for City of Jackson, protestant.
Mary Carlos, Attorney at Law, and James M. Barnes, for the Commission staff.

INTERIM OPINION

Jackson Water Works, Inc., a wholly owned subsidiary of Citizens Utilities Company (Citizens-Delaware) requests an increase in rates for metered service, designed to increase annual revenues in the test year by \$93,000 over its rates now in effect.

Public hearing was held before Examiner Daly at Jackson on November 12, 13, and 14, 1975 and at San Francisco on November 17, 18, 1975, and January 5, 1976. The matter was submitted on the latter date upon the receipt of concurrent briefs since filed and considered. Copies of the application were served upon interested parties and notice of hearing was published, posted, and mailed in accordance with the Commission's Rules of Procedure.

The city attorney for the city of Jackson filed a petition requesting an Examiner's Proposed Report. From the allegations contained therein it appears that city requests the report for the purpose of raising certain issues that were not raised during the course of hearing and for the purpose of argument. An Examiner's

Proposed Report is used for neither of these purposes. If there were issues that the city wished to raise, it should have done so during the course of hearing, and if it wished to argue, it should have filed a brief, which it chose not to do. The petition for an Examiner's Proposed Report is denied.

On February 9, 1976, applicant filed a petition requesting an interim rate increase pending final determination of the application. The proposed preliminary rates are based upon the staff's estimates and recommended rate of return, which would be an increase of \$63,870. Although applicant does not adopt the staff's estimates it contends that it will operate at a loss in 1976 and requires an interim increase pending final order by the Commission.

Because of the serious service problems affecting this utility and the need for improved management and operations practices, this Commission will issue an interim order at this time. This interim order will adopt results of operations, and require the utility to develop an improvement plan subject to further hearings. A fair rate of return will be determined after the improvement plan is implemented successfully and demonstrated.

Citizens-Delaware operates and/or has subsidiary utility companies providing gas, electric, telephone, water, and wastewater services in more than 500 communities in the United States. Its headquarters is located at High Ridge Park, Stamford, Connecticut. It actively engages in the administrative direction of these companies performing administrative, accounting, financial, tax, engineering, and purchasing services for them. Services, including general management and supervision, engineering, accounting, financial, legal, and others, are performed in Stamford, Connecticut, by Citizens-Delaware for its subsidiaries. Certain management and supervising, accounting, billing, and other reporting services for Citizens Utilities Company of California (Citizens-California), and its California affiliates, including applicant, are performed at an administrative office in Redding, California. In addition, certain plant in the Sacramento office of Citizens-California is used for the common benefit of all district water operations and affiliated water companies in California.

In addition to the instant application there are presently pending before the Commission five other applications for water rate increases, which were filed by affiliated companies^{1/}. Before considering the instant application in particular we first will consider the method of assigning and allocating administrative costs and expenses originating at Stamford, Redding, and Sacramento. By stipulation all of the evidence received in the proceeding relating to such costs and expenses has been incorporated in the other application proceedings.

Stamford Administrative Office Expense

Certain costs incurred at the Stamford office are charged directly to districts and subsidiaries, and all remaining costs are accumulated in clearing accounts called "Stamford Administrative Office Expense" accounts and allocated to all operating properties, with allocations to properties in California being by the four-factor method.

The 1976 Stamford administrative office expenses are summarized in the following table:

^{1/} Application No. 55453 filed by Larkfield Water Co., Application No. 55431 filed by Citizens Utilities of California-Guerneville, Application No. 55471 filed by North Los Altos Water Company, Application No. 55538 filed by Citizens Utilities Company of California-Montara, and Application No. 56285 filed by Inverness Water Company.

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Estimated 1976 Stamford Administrative Office Expenses

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
(Dollars in Thousands)			
<u>Salaries & Wages</u>			
Officers	\$ 672.6	\$ 386.3	\$ 286.3
Accounting Dept.	276.8	16.1	260.7
Secretarial & Typing Dept.	-	149.3	(149.3)
Internal Audit & Tax Dept.	117.5	89.9	27.6
Engineering Dept.	-	161.3	(161.3)
Systems & Operations Dept.	139.2	57.5	81.7
Rate Dept.	25.1	95.0	(69.9)
Other General Office	77.8	52.6	25.2
Legal Dept.	67.6	59.3	8.3
Personnel Dept.	36.8	-	36.8
Temporary	20.9	18.2	2.7
Total Salaries & Wages	<u>1,434.3</u>	<u>1,085.5</u>	<u>348.8</u>
<u>Expenses</u>			
Travel and Per Diem	50.0	28.1	21.9
Directors' Fees	20.8	15.6	5.2
Net General Office Rents	99.6	88.1	11.5
Rents Received from Sub-lessee	-	(12.2)	12.2
Telephone and Telegraph	27.2	22.2	5.0
Stationery and Printing	12.2	10.0	2.2
Depr. & Maint. of Office Furniture & Equipment Exp.	57.8	87.6	(29.8)
Electricity, Postage & Supplies	101.2	81.7	19.5
Dues, Contributions & Subscriptions	23.1	23.1	-
Insurance & Employee Benefits	47.3	35.9	11.4
Mortgage Indent. & Sharehold. Exp.	146.0	146.0	-
Unemployment & O.A.B. Taxes	58.7	43.8	14.9
Property & Franchise Taxes	57.6	15.4	42.2
Other Expenses	86.3	130.8	(44.5)
Total Expenses	<u>787.8</u>	<u>716.1</u>	<u>71.7</u>
Total Salaries, Wages & Expenses	2,222.1	1,801.6	420.5
Less: Charged to Capital	(981.1)	(1,112.3)	131.2
Billed Directly	-	(4.0)	4.0
Net Salaries, Wages & Expenses	1,241.0	685.3	555.7
<u>Allocation to California</u>			
Percent	29.25%	29.84%	-
Amount	\$ 363.0	\$ 204.5	\$ 158.5

Two staff financial examiners visited the Stamford office and following an examination of the books, financial records, and accounting procedures prepared a report (Exhibit 17) recommending the following:

- "1. Citizens-Delaware make a new study to determine what the proper current percentages of overheads capitalized should be.
- "2. Periodic studies be made no less than once a year to determine what percentage of accounting salaries should be assigned to subsidiaries other than that in California.
- "3. Time spent in the Stamford office by the members of the internal audit staff on preparation and analysis of subsidiaries be assigned directly to those subsidiaries.
- "4. Time spent in the Stamford office by members of the Legal and the Rate Research Departments on work pertaining to specific subsidiaries be assigned directly to those subsidiaries.
- "5. Salaries of members of the Secretarial and Filing Department who work full time for members of other departments be assigned to those departments and then salaries be allocated to subsidiaries in the same percentage as the sum of the other salaries in the departments.
- "6. The staff of the Engineering Department maintain time records to allow their salaries to be assigned directly to subsidiaries.
- "7. The expense of outside auditors be allocated on the four factor method. [2]

2/ According to applicant it has been following the four-factor method in this expense.

- "8. Expense of Office Rent, Secretarial and Filing Systems and Operations, Stationery and Printing, Office Furniture and Equipment Expenses, Electricity and Postage, Other Office Supplies & Expenses, Unemployment Insurance Taxes, and Old Age Benefits Taxes and Property Taxes to be allocated between subsidiaries on the same basis as the other basic salary groups shown on the first 10 Lines of Table A-1.
- "9. There be a penalty clause in the decision of the instant application, disallowing all administrative Office Costs and Expenses if the applicant does not conform to the recommendations in those decisions on upgrading its cost accounting procedures of such expenses. Such disallowance should be made to be effective beginning one year from its date of those decisions."

On the first day of hearing applicant revised many of the exhibits attached to its application, which was filed on January 7, 1975, to reflect changed conditions. Certain of the revisions were assertedly made in compliance with the staff's recommendations concerning the future methods of allocating components of the Stamford Administrative Office Expenses relating to salaries. The staff engineer, who made his study in early 1975, used the verified four-factor method because either no accurate timekeeping records were available, or if they were available, applicant made no attempt to produce them. Upon receipt of the staff's exhibits applicant apparently made a retroactive attempt to determine these amounts by talking to people involved, but there is no way of checking these figures in this proceeding in the absence of accurate timekeeping records. According to the staff engineer who visited the Stamford office, very little detail on salary classifications was provided him and as a result it was impossible to determine exactly what the employees actually did. It was this very difficulty that led to the staff's recommendations for future proceedings. Such recommended

procedures will not be considered in the pending proceedings, but will be required for all future proceedings of Citizens-Delaware and its subsidiaries.

The staff allowed only one-half of the annual salary of the chief accountant in Stamford because most accounting for the California operations is performed in Redding and only review is required in Stamford.

The staff allowed all salaries connected with the tax personnel and audit manager, but excluded the other auditors because this type of operation is also performed at Redding.

The staff excluded personnel classified as electrical and sanitary engineers as well as one draftsman and the manager of the telephone facilities. Because the staff was not provided with any data indicating that three hydraulic engineers were employed at Stamford it treated them as civil engineers performing work for all subsidiaries and apportioned their salaries accordingly. The staff admits that their salaries should have been allocated only to the water systems and would have done so had proper time records of time worked on a particular job been maintained. For the same reason, lack of adequate information, the staff did not assign expenses for secretaries back to the particular departments for which they worked. The staff's estimates of these salaries reflect the ratio of the foregoing adjustments with respect to the total allowable salaries.

Applicant's estimates of salaries and wages for 1976 reflect increases which it anticipates will occur during that year, whereas the staff's estimates reflect salary and wage costs, at the time of the study, annualized. The staff contends, and we agree, that these expenses should not include anticipated increases which may or may not occur.

Applicant contends that the staff acted arbitrarily in excluding officers' salaries in excess of \$100,000 annually. It argues that it is unrealistic to expect that a competent, qualified Chairman of the Board, who is also the Chief Executive Officer and President with the responsibilities that such positions entail in a company of the size and scope of Citizens, can be employed at a salary of \$100,000. Applicant believes that its consumers benefit from the employment of capable, high-caliber executives in those capacities and should bear their fair share of the related costs.

The major differences between applicant's and the staff's estimates, other than salaries and wages, are as follows:

1. The staff reduced the travel and per diem expense for the Chairman of the Board and the President, who is one and the same, from \$40,000 to \$20,000 because he is not required to substantiate expenditures by vouchers or by itemization, nor is he required to return unexpended funds. The staff considered this item as more in the nature of compensation. Applicant contends that such expenditures are incurred in the performance of duties which benefit the California properties and these properties should bear their proportionate share of those expenses.
2. In determining expenses for telephone, telegraph, stationery, and printing the staff considered recorded data from 1972 through 1974, whereas applicant used the shorter period 1973 and 1974. The staff did not believe that the shorter period was representative of general trends.
3. A negative figure of \$12,200 was included by the staff for rents received for the sublease of Stamford office space not being used. With respect to the space that was being used the staff allocated by gross rents in proportion to the salaries that were excluded.

4. Applicant indicated that depreciation expense on office furniture and equipment is determined so that the depreciable plant balance will be zero at the date the initial 12-year lease on the building expires. However, because applicant's estimates did not utilize a straight 8.33 percent for each test year, this did not accomplish the expressed purpose. The staff based its estimates on a weighted average for plant additions using a 12-year original service life.
5. Both applicant and the staff agree on expenses for dues, contributions, subscriptions, and most indenture and shareholder expenses.
6. The staff's estimates of employees' benefits and unemployment and old age benefit taxes reflect the adjustments made to salaries. The staff's estimates are lower than applicant's due to its use of current rather than projected, salary levels.
7. At the time of filing its application, applicant estimated property and franchise taxes at \$28,500, which the staff accepted subject to an adjustment for operations appropriate to California. Applicant made no explanation for its revised estimate of \$59,500.

8. Applicant originally estimated other expenses in the amount of \$130,800, which the staff deemed reasonable and accepted. Applicant offered no explanations for reducing this amount to \$86,300 in its revised estimates.
9. Applicant contends that the staff is in error in determining the amounts to be charged to capital based upon the assumption that charges to capital have no relationship to total salaries and expenses. Applicant believes that these charges should be related to the level of construction. The method employed by the staff is exactly the same as that adopted by the Commission in Decision No. 83610 dated October 16, 1974 in Application No. 54322 (Washington Water and Light Co.). At no time during the course of that proceeding did applicant contest the use of this method which we believe is reasonable.

Staff's estimates of these Stamford expenses are reasonable and are accepted.

Redding Administrative Office Expense

A summary of the Redding administrative office expense is as follows:

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<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
	(Dollars in Thousands)		
<u>Salaries & Wages</u>			
Managers' Salaries	\$ 60.7	\$ 53.2	\$ 7.5
Accounting Dept. Salaries	<u>311.1</u>	<u>248.0</u>	<u>63.1</u>
Total Salaries	371.8	301.2	70.6
<u>Expenses</u>			
Expenses of General			
- Office Employees	13.1	13.1	-
Legal Expenses	2.6	2.6	-
Telephone & Telegraph	8.9	8.9	-
Stationery & Printing	19.6	19.6	-
Depreciation & Maintenance of Furniture & Equipment	5.3	5.3	-
Other Office Supplies & Expenses	25.6	25.6	-
Insurance	.4	.4	-
Dues and Subscriptions	.6	.6	-
Employees Insurance & Benefits	10.0	8.1	1.9
Unemployment & Old Age Benefit Taxes	26.5	18.5	8.0
Audit Expense	<u>19.4</u>	<u>17.5</u>	<u>1.9</u>
Total Expenses	132.0	120.2	11.8
Total Salaries & Expenses	503.8	421.4	82.4
Less Amount Charged to Capital	(157.0)	(160.9)	3.9
Net Redding Salaries & Expenses	346.3	260.5	86.3
Stamford Mutual Service			
Net Expense Allocated to Calif.	363.0	204.5	158.5
Total Mutual Service to be Allocated	709.8	465.0	244.8

The major differences with respect to salaries and wages are attributable to the fact that the staff made its determination based on wage and salary levels as of October 31, 1975, and applicant included within its estimates anticipated increases for 1976. The differences for employees' insurance and benefits as well as for unemployment and old age benefits are also attributable to the differences in salaries and wages.

The staff estimates of allocations to California operations appear reasonable and will be accepted. The following is the allocation of Redding and Stamford administrative office expenses to California operations:

<u>District</u>	<u>Percent</u>	<u>1976</u>
Telephone	64.22%	\$298,623
Felton	1.36	6,324
Guerneville	2.94	13,671
Montara	1.30	6,045
Niles	3.93	18,275
Sacramento County	14.28	66,402
Francis Land & Water Co.	.69	3,208
Jackson Water Works	1.58	7,347
North Los Altos Water Co.	2.13	9,904
Inverness Water Co.	.49	2,279
Washington Water & Light Co.	6.06	28,179
Larkfield Water Co.	1.02	4,743
Total	100.00%	\$465,000

Sacramento Common Plant Expenses
(Dollars in Thousands)

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
Salaries & Wages	\$27.5	\$ 9.0	\$18.5
Employees Expense	7.5	6.0	1.5
Telephone & Telegraph	1.2	1.2	-
Employees Benefits	1.6	.5	1.1
Postage & Express	3.9	3.0	.9
Other Office Supplies & Expenses	7.4	7.4	-
Dues	.2	.2	-
Office Furniture & Equipment Expense	.5	.5	-
Lights & Water	1.1	1.1	-
Payroll Taxes	2.3	.7	1.6
Depreciation	1.3	1.3	-
Property Taxes	2.5	2.5	-
Total Expenses	<u>\$57.0</u>	<u>\$33.4</u>	<u>\$23.6</u>

Again the major difference is salaries and wages, which is attributable to applicant's projecting salaries to anticipated levels in 1976, while the staff used wage levels as of October 31, 1975. At the time it filed its application, applicant estimated salaries and wages at \$8,800 and later revised this figure to \$27,500. This same allocated expense amounted to \$4,116 in 1971; \$8,528 in 1972; \$19,509 in 1973; \$7,899 in 1974. It appears that the percentage allocated fluctuates substantially from year to year. Because of this the staff contends that the amount allocated by applicant in 1976 would not be representative of future years.

Other differences, such as employees expenses, employee benefits, and payroll expenses, are all related to salaries and would rise or fall accordingly.

The staff's estimates relating to allocation of expenses of the California operations of Sacramento common utility plant are reasonable and will be adopted, and are set forth as follows:

<u>District</u>	<u>Allocation Percent</u>	<u>1976</u>
Felton	3.80%	\$ 1,269
Guerneville	8.22	2,746
Montara	3.63	1,212
Niles	10.98	3,667
Sacramento County	39.91	13,330
Francis Land & Water Co.	1.93	645
Jackson Water Works	4.42	1,476
North Los Altos Water Co.	5.95	1,987
Inverness Water Co.	1.37	458
Washington Water & Light	16.94	5,658
Larkfield Water Co.	2.85	952
Total	100.00%	\$33,400

Jackson Water Works, Inc.

Applicant furnishes water service in the city of Jackson and vicinity in Amador County to 1,139 active metered service connections, 15 private fire service customers, and 133 public fire hydrant connections. It has operated since a date unknown prior to 1912. Citizens-Delaware acquired the stock of applicant in 1970.

Applicant purchases water from Pacific Gas and Electric Company which is then stored in applicant's 4,000,000-gallon open reservoir located in Martel, just north of Jackson. The water is treated and filtered through pressure sand filters and delivered into an adjacent 1.5 million-gallon roofed, concrete reservoir from where it is delivered to the Jackson Gate Reservoir and the distribution system. Pressures are maintained by automatic pressure regulating valves. The distribution system consists of approximately 106,800 feet of distribution main varying in size from 2 to 12 inches in diameter.

Rates

Applicant proposes to increase rates as indicated by the following comparison of present and proposed rates:

		<u>Per Meter Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
Quantity Rates:			
First	500 cu.ft. or less	\$ 3.80	\$ 7.00
Next	1,500 cu.ft., per 100 cu.ft.	.44	.80
Next	8,000 cu.ft., per 100 cu.ft.	.25	.50
Over	10,000 cu.ft., per 100 cu.ft.	.19	.40

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 3.80	\$ 7.00
For	3/4-inch meter	5.30	10.00
For	1-inch meter	8.80	16.50
For	1-1/2-inch meter	15.00	28.00
For	2-inch meter	21.00	39.50
For	3-inch meter	31.00	58.00
For	4-inch meter	56.00	105.00

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

Private Fire Protection Service

		<u>Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
For each inch of diameter of service connection		\$ 1.25	\$ 2.50

Fire Hydrant Service

Per Hydrant Per Month

Hydrant Owned By	Type of Hydrant	Size of Conne- ctions	Number of Outlets	<u>Minimum Size of Main Supplying Hydrant</u>				
				Under 4"	4" and less than 6"	6" and less than 8"	8" and less than 10"	10" and Larger
<u>Present Rates</u>								
Customer	Wharf	Under 4"	1	\$1.00	\$1.00	\$1.25	\$1.50	\$1.50
Utility	Wharf	Under 4"	1	1.25	1.25	1.50	1.75	1.75
Customer	Wharf	4-inch	1	1.00	1.25	1.50	1.75	2.00
Utility	Wharf	4-inch	1	1.25	1.50	1.75	2.00	2.25
Customer	Barrel	4-inch	1	-	1.25	1.50	1.75	2.25
Utility	Barrel	4-inch	1	-	1.75	2.00	2.25	3.00
Customer	Barrel	4-inch	2	-	1.25	1.50	2.00	2.50
Utility	Barrel	4-inch	2	-	2.00	2.25	2.75	3.25
Customer	Barrel	6-inch	2	-	1.50	1.75	2.25	2.75
Utility	Barrel	6-inch	2	-	2.25	2.50	3.00	3.50
Customer	Barrel	6-inch	3	-	1.75	2.00	2.50	3.00
Utility	Barrel	6-inch	3	-	2.50	3.00	3.50	4.00

Proposed Rates

Wharf	4-inch and Under	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50
Barrel	4-inch	-	3.50	4.00	4.50	5.00
Barrel	6-inch	-	4.50	5.00	6.00	7.00

Summary of Earnings

The following is a summary of applicant's estimated earnings for the year 1976 as presented by the applicant and the staff as set forth in Exhibits 18 and 23:

Item	Applicant		Staff		Applicant	
	Present	Proposed	Present	Proposed	Exceeds Staff	
	Rates	Rates	Rates	Rates	Present	Proposed
(Dollars in Thousands)						
Operating Revenues	\$117.1	\$219.9	\$126.9	\$219.9	\$ (9.8)	\$ -
<u>Operating Expenses</u>						
Oper. & Maint.	71.5	69.4	63.0	63.1	8.5	6.3
Admin. & Gen.	28.4	34.5	21.2	21.2	7.2	13.3
Depreciation	17.4	18.6	17.4	17.4	-	1.2
Taxes - Except Income	16.7	19.7	16.3	17.4	.4	2.3
Income Taxes	-	7.6	(23.5)	24.9	23.5	17.3
Total Expenses	134.0	149.8	94.4	144.0	39.6	5.8
Net Operating Revenue	(16.9)	70.1	32.5	75.8	49.4	(5.7)
Average Rate Base	629.8	790.8	692.3	692.3	(62.5)	98.5
Rate of Return	loss	8.86%	4.69%	10.96%		

(Red Figure)

Operating Revenue

In addition to reviewing applicant's method of estimating water consumption the staff also made independent estimates. The staff estimated its average annual metered sales per commercial customer using a multiple regression analysis based on time, rainfall, temperature, and recorded historical consumption. The staff determined an average annual use per customer of 163.4 Ccf for 1975 and 163.6 Ccf for 1976. The staff accepted as reasonable and adopted applicant's estimate of 164 Ccf per average customer and also accepted as reasonable applicant's estimates of customer growth. The staff, however, used the rates placed in effect by Decision No. 84589 dated June 24, 1975 in Application No. 53288 to compute present rates whereas applicant having filed the instant application on January 7, 1975 used the rates authorized by Decision No. 82361 dated January 22, 1974 in Application No. 53288.

Comparison of Estimated Revenues 1976

Item	Applicant		Staff		Applicant
	Present	Proposed	Present	Proposed	Exceeds Staff
	Rates	Rates	Rates	Rates	Present:Proposed:

(Dollars in Thousands)

Commercial Metered	\$113.5	\$212.7	\$123.3	\$212.7	\$(9.8)
<u>Fire Protection</u>					
Private	.8	1.8	.8	1.8	-
Public	2.7	5.3	2.7	5.3	-
Other Revenues	<u>.1</u>	<u>.1</u>	<u>.1</u>	<u>.1</u>	<u>-</u>
Total	117.1	219.9	126.9*	219.9	(9.8)

(Red Figure)

*If the staff had used the rates made effective by Decision No. 82361 dated January 24, 1974, the staff's estimates at present rates would have been \$114.9 for 1975 and \$117.1 for 1976.

Operation and Maintenance Expense

The summary of earnings indicates a difference of \$6,300 in operation and maintenance expense estimates for 1976. The following tabulation sets forth the detailed estimates of applicant and staff:

<u>O & M Expenses</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
(Dollars in Thousands)			
Salaries	\$36.6	\$32.3	\$4.3
Purchased Power	3.6	3.6	-
Purchased Water	8.5	7.3	1.2
Materials & Misc.	10.6	10.6	-
Customers Acct'g. & Misc.	5.0	4.6	.4
Transportation	3.9	3.5	.4
Telephone & Telegraph	.9	.9	-
Uncollectible Accounts	<u>.3</u>	<u>.3</u>	<u>-</u>
Total	69.4	63.1	6.3

Again in conformity with Commission policy the staff used the latest known salary rates to estimate salaries and wages for 1976, which are consistent with the Commission's holding in Decision No. 84902 dated September 16, 1975 in Applications Nos. 54279, 54280, and 54281 (Pacific Gas and Electric Company).

The \$1,200 difference for purchased water results from a lower estimate on the part of the staff for water loss due to leakage. There is a total system loss of water of approximately 38 percent, including a 14 percent loss at the earthen reservoir.

Applicant estimated customer accounting and miscellaneous accounts on a per-customer basis by annualizing the first 10 months of 1974 recorded expenses per customer and then increased the per customer expense by 10 percent a year for 1975 and 1976. According to the staff the 1974 recorded expenses were 45 percent higher than 1973 because of the inclusion of several nonrecurring expenses. The staff spread the nonrecurring expenses over a five-year period and thereby reduced the 1976 expenses by \$400.

The staff used recorded 1974 transportation expense and allowed an additional depreciation expense of \$212 for a vehicle added in 1974. Applicant contends that the staff's estimate does not take into consideration rising costs that have occurred and will be occurring in 1976. The staff estimated that gasoline costs in California for 1975 ranged between 57 and 61 cents a gallon, which was approximately the same range in 1974.

The staff's estimates are reasonable and will be accepted.

Administrative and General Expenses

A summary of administrative and general expenses is as follows:

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
	(Dollars in Thousands)		
Administrative Office Expense	\$12.5	\$ 7.4	\$ 5.2
Common Plant Expense	2.3	1.5	.8
Legal and Regulatory Expenses	9.1	3.9	5.2
Insurance	.3	.3	-
Injuries & Damages	1.5	1.4	.1
Welfare & Pensions	7.2	5.2	2.0
Rent	1.4	1.4	-
Miscellaneous and Per Diem	.2	.2	-
Total	<u>34.5</u>	<u>21.3</u>	<u>13.2</u>

Administrative office expense and common plant expense were considered and adopted in the first portion of the opinion.

The staff estimated \$3,900 for legal and regulatory expenses on the expectation that the hearing would be held in Jackson only. Applicant originally estimated such expenses at \$5,600 on the expectation that the application would be heard on a consolidated basis with the other pending applications of affiliated water companies. When it was not so consolidated, applicant revised its estimate to \$9,100.

Additional days of hearing were required primarily for the purpose of providing the staff an opportunity to prepare and conduct cross-examination of applicant's revised exhibits. Copies of these exhibits should have been provided to the staff at a reasonable time before the first day of hearing. If applicant intended to revise its exhibits it was not necessary to see the staff's exhibits first, as applicant claims.

Applicant included \$3,300 per year for three years to amortize the cost of a prior rate case, which was the subject of rehearing. (Decision No. 82361 dated January 22, 1974 and Decision No. 84589 dated June 24, 1975 in Application No. 53288.) In that proceeding the Commission allowed \$1,800 per year for regulatory expenses based on a three-year amortization of an adjusted total allowance. The staff included an amount of \$1,800 instead of \$3,300, which was proper.

The staff excluded \$2,000 from its estimate of the welfare and pension, which is the amount attributable to the employees efficiency incentive fund. The staff considered this a bonus plan, which was disallowed by the Commission in Decision No. 76996 dated March 24, 1970 in Application No. 48905 (Citizens Utilities of California - Guerneville). Applicant considers this as part of its compensation structure and as such a proper charge to operations. The Commission has previously held that this is more in the nature of a bonus or profit sharing plan which should be paid for by the stockholders. The staff's estimates are reasonable and will be accepted.

Taxes Other Than Income

The staff used the same effective tax rate for 1975 and 1976 to eliminate any attrition in the rate of return due to changes in the ad valorem tax rates.

The staff computed payroll taxes on the basis of the latest known rates to be in effect in 1975.

Property taxes were estimated by the staff at the latest known rates, which included an adjustment of \$800 for the increased property taxes for the tax year 1975-76. The differences between applicant and the staff are due to different estimates in plant additions. The staff's estimates are reasonable and will be accepted.

Income Taxes

The differences in taxes are mainly due to different estimates of expenses and the staff's use of negative income taxes.

The parent company, Citizens-Delaware, compiled depreciation on a straight-line basis for plant constructed

before January 1, 1971, and uses liberalized depreciation for justifying additions in 1971, 1972, 1973, 1974, 1975, and 1976. Both applicant and the staff followed this method as adopted in Decision No. 83610 dated October 16, 1974 in Application No. 54322 (Washington Water and Light Co.). Applicant and the staff each utilized the straight-line basis for federal income tax depreciation.

The staff computed the investment credit for the 1971, 1972, 1973, and 1974 plant additions and deducted 3.5 percent (spread over 28 years) of this credit as an annual amount from the federal income tax. The staff also applied the new 10 percent investment credit rate on 1975 and 1976 plant additions.

The only objection applicant had to the staff's calculations was directed to the staff's rolling all the nonrevenue producing plant additions for 1975 and 1976 back to January 1, 1975, thereby increasing the tax depreciation. Applicant contends that as income taxes should be calculated on an "as paid basis" the staff's method overstates the tax depreciation and thereby decreases income taxes. The use of roll back for ratemaking purposes is a common practice that has been followed by the Commission for many years. The staff's estimate is reasonable and will be accepted.

Depreciation Expense and Reserve

Both applicant and the staff computed depreciation by the straight-line remaining life method and apply depreciation rates by accounts. Each used the same method and applied those rates by accounts to the average of adjusted beginning- and end-of-year depreciable plant balances. The differences in the estimates of depreciation expenses and reserves are due to different estimates of plant additions.

The staff's estimate is reasonable and will be accepted.

Rate Base

The following tabulation sets forth a comparison of applicant's and the staff's rate base components for the estimated year 1976, which includes applicant's estimates at the time the application was filed and its revised estimates filed during the course of hearing in Exhibit 13:

	<u>Applicant Date of Filing</u>	<u>Applicant Exh. 13</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
Utility Plant in Service	\$1,007,400	\$1,093,000	\$1,006,700	\$86,300
Reserve for Depreciation	(192,800)	(194,000)	(201,500)	7,500
Net Plant in Service	814,600	899,000	805,200	93,800
Common Plant	4,400	4,600	4,600	-
Material and Supplies	12,100	11,300	9,700	1,600
Working Cash	19,100	19,100	15,900	3,200
Minimum Bank Balance	7,800	7,800	-	7,800
Non-Interest Bearing CWIP	1,500	1,700	1,700	-
Advances for Construction	(117,700)	(39,600)	(30,400)	(9,200)
Contr. in Aid of Constr.	(84,800)	(84,800)	(84,800)	-
Res. for Def. Income Taxes	(27,200)	(28,300)	(29,600)	1,300
Rate Base	\$ 629,800	\$ 790,800	\$ 692,300	\$98,500

(Red Figure)

The main difference in utility plant in service is due to estimated construction. Applicant's revised estimated construction budget for 1976 is \$207,000, whereas the staff's estimate is \$110,000. At the time the application was filed applicant's estimate for construction in 1976 was \$77,700. Shortly after the application was filed, and in response to a request by the staff, applicant provided construction estimates for the years 1977, 1978, and 1979 which were \$17,500, \$24,000, and \$20,000, respectively. During the period 1968 through 1974 the recorded plant additions were as follows:

1968	\$ 64,821
1969	19,366
1970	15,134
1971	9,426
1972	235,435
1973	88,945
1974	53,721

A filter plant and reservoir were added in 1972. As of October 1975 applicant had completed \$102,000 of its estimated construction for 1975.

Based upon past performance it would appear that the staff's estimate is reasonable and will be accepted.

The estimates for reserve for depreciation differ because of the staff's lower estimate of construction and its lower estimate of plant retirements. The staff's estimate is reasonable and will be accepted.

The staff's estimate of materials and supplies is based on 1974 recorded data, whereas applicant used the weighted monthly balances for the years 1973 and 1974 resulting in a \$1,600 difference. Staff's estimate is reasonable and will be accepted.

Applicant and staff both compiled working cash using the simplified basis prescribed in Standard Practice U-16. The difference of \$3,200 is due to the different estimates of expenses. Staff's estimate will be accepted.

Applicant included \$7,800 in rate base for the minimum bank balance. The staff excluded the minimum bank balance in conformity with the Commission's holding in Decision No. 83610 dated October 16, 1974 in Application No. 54323 (Washington Water and Light Co.). The Commission has excluded minimum bank balances because they represent portions of the amount of minimum bank balances that Citizens-Delaware is required to keep with banks in order to acquire short-term financing at a prime rate. Applicant does not itself make any short-term borrowings. Therefore, these balances are not directly related to the day-to-day operations of applicant. Staff's estimate is reasonable and will be accepted.

We find the applicant's average depreciated rate base for the 1976 test year is \$692,300. We find this rate base to be reasonable.

Quality of Service

Complaints filed in applicant's office are indicated as follows:

<u>Type of Complaint</u>	<u>Year</u>	
	<u>1974</u>	<u>January 1 - August 4, 1975</u>
Main Leaks	67	44
Service Leaks	18	7
Dirt, Sand, Smell	15	47
No Water	4	8
Low Pressure	20	2
High Pressure	-	1
Water Bill	-	9
Total	124	118

The contents of letters received by the Commission protesting the proposed increase are as follows:

Amount of Proposed Rate Increase	9
Request for Night Hearing	2
Dirt, Sand, Silt, Smell	4
Low Pressure	2
Total	17

The staff made field investigations of applicant's system in May, August, and September 1975. The system was inspected, pressures were checked, customers and employees were interviewed, and methods of operations were reviewed. There were complaints about excessive taste, odor, and sediment in the water. There were complaints of low pressure from certain customers living in the high elevations, particularly during the summer months and periods of high usage. The new parts of the system including the filter plant and covered reservoir appeared to be in good condition and adequately maintained, but parts of the old system have large numbers of leaks.

Thirteen public witnesses testified. Their complaints included dirty water, water discoloration, odor, low pressure, water leakage, too much chlorine, and the excessive cost of water. Several testified that because of the nature of the water, they purchase water for the purposes of drinking and cooking. One witness testified that her husband has developed an allergic rash from the water.

A representative of the California Department of Health testified that because of the corrosive nature of the water, which is typical of surface waters throughout the Sierra foothill region, the system requires additional treatment facilities, including an additional filter and the installation of a 24-hour alarm system. He further testified that the discoloration of the water is caused by high pressure that dislodges iron oxide from the pipes and turns the water to the color of tea. According to the witness this can be controlled by the addition of soda ash or lime and by regular flushing of the system.

By letter dated December 11, 1975, the Department of Public Health ordered applicant to prepare plans and specifications for the installation of corrosion control treatment facilities.

The staff's recommendations as set forth in Exhibit 18 are as follows:

- "1. The Jackson Water Works system except for the filter plant and some recently installed mains, is primarily quite old and consists of steel pipe of poor condition resulting in many leaks. These leaks are not confined to any one part of the system but occur frequently throughout the system. The large percentage of unaccounted for water is a result of excess leakage.
- "2. The local representative flushes the system on a monthly schedule and when complaints are received from customers. Despite the regular flushing program, complaints of rusty, dirty water are received. A review of the flushing program reveals that a systematic method of flushing by the use of system valving when hydrants are flushed is not in effect. It is recommended that applicant's engineer carefully review the flushing procedure to ensure that flushing is systematically done to provide the best line cleaning in each area.
- "3. A systematic replacement of old, small distribution mains should be instituted at Jackson to eliminate leaks and improve water quality. The staff recognizes that installation of all the recommended replacements in one year would increase rates to the consumers beyond a reasonable amount. It would be necessary to spread the improvements over a period of years with a relatively fixed investment each year.
- "4. The staff recommends that applicant invest approximately \$60,000 per year for a period of five years in improvements to the existing production, storage and distribution system of Jackson Water Works. Applicant should be ordered to provide and implement a plan for this expenditure. The additional revenue required for this program would approximate a 9.25% increase in rates each year. The following items should be considered in the plan: [3]

3/ The \$60,000 amount would be in addition to the \$110,000 allowed by the staff for new construction in 1976.

- "a. Additional water storage in the vicinity of Peeks Hill.
 - "b. An additional treatment tank and pump at the filter plant.
 - "c. Replacement of approximately 16,200' of old inadequate distribution mains on Jackson Gate Road, Main Street, Stasal Avenue, Church Street, Broadway, Rowena, South Avenue, Center Street, Endicott Avenue, and Mariposa.
- "5. Applicant's revised budget for 1976 contains part of the above improvements but tentative budgets beyond 1976 do not reflect any replacement projects.
- "6. Because the dollar amount of plant additions estimated by the staff contains the first year's improvements, no additional showing of a results of operation for the future years is deemed necessary in this proceeding.
- "7. The Utilities Division staff recommends that applicant be ordered to prepare and implement a system improvement plan to include the years 1976 through 1980 that will require the expenditure of \$300,000 at the rate of \$60,000 per year for replacement of distribution mains, additions to filter plant and installation of an additional storage tank.
- "8. Applicant should notify the Commission not later than March 30, 1977, and March 30 of each succeeding year as to the improvements completed and the cost thereof."

In addition to testifying that the staff's recommendations, many of which were included in applicant's revised estimated cost of construction for 1976, would cost approximately \$600,000 rather than \$300,000, applicant's vice president and general manager testified that the elevation in the area of Peeks Hill would not provide proper pressure for the system. He further testified that although the system is old and subject to leaks, upon investigation it is frequently

found that the leaks and much of the low pressure complained of are attributable to the poor condition of the pipes located on the property of the customer over which applicant has no control.

On February 10, 1976 Commissioner Robert Batinovich issued an order directing Citizens-Delaware to undergo a management study of its operations. The resulting report was the subject of public hearings, and the recommendations contained in the report were considered by the Commission in Decision No. _____. The tailoring of the general recommendations to each utility was left to the individual rate decisions. Appendix A of this decision has been written to focus applicant's attention on those areas which are most in need of improvement.

Rate of Return

Quality of service is an important consideration in the Commission's determination of a fair rate of return. Since we anticipate a marked improvement in the quality of service provided by applicant, it would be unreasonable to set a rate of return at this time. Following the Commission's acceptance of the plans and information specified in Appendix A applicant may request an interim increase in rates. After applicant has successfully implemented the approved plans and demonstrated an adequate level of service, an appropriate rate of return, and rates consistent with that rate of return, will be adopted.

Adopted Results

A summary of the adopted test year 1976 operating expenses at present rates is as follows:

<u>Operating Expenses</u>	<u>Dollars in Thousands</u>
Oper. & Maint.	\$ 63.1
Admin. & Gen.	21.2
Depreciation	17.4
Taxes - Except Income	16.3
Income Taxes	<u>(23.5)</u>
Total Expenses	94.4

The adopted test year rate base is \$692,300. Adopted revenue requirements and rate of return will be determined at a later time.

Findings

1. Applicant's water service is of poor quality and must be upgraded before a final decision is reached in this case.

2. Applicant will be expected to prepare the plans and information specified in Appendix A and an estimate of the capital cost and operating expenses required by the implementation of such plans.

3. Further hearings will be held to determine the adequacy of the plans filed by applicant in response to Appendix A.

4. Following the Commission approval of applicant's plans and the completion of an appropriate demonstration period, the Commission will hold further hearings to determine a fair rate of return.

Conclusion

While it has been established that significant improvements should be made in the manner of operation of this utility, it is not the proper function of this Commission to assume the role of management. (Of course, it is a function of the Commission in appropriate situations to order specific improvements and practices, and to enforce our orders.) We will describe those areas which seem most in need of improvement and require that applicant prepare detailed improvement plans and such other information as seems necessary. The plans and information required are described in Appendix A.

In developing these plans applicant is urged to hold discussions with the staff in order to minimize the amount of time necessary for revisions. Public hearings will be held to review the plans.

Because the utility should promptly begin improvement of its service to consumers we shall make our order effective on the date hereof.

INTERIM ORDER

IT IS ORDERED that:

1. Jackson Water Works, Inc. shall file with the Commission the plans and information specified in Appendix A of this order within the required time period. Applicant shall file, in addition, the capital costs and operating expenses which would result from the implementation of the plan.
2. Upon Commission approval of the plan, applicant may request an additional interim order of the Commission authorizing a further increase in rates.
3. All cost accounting procedures of the administrative and office costs and expenses that are allocated by Citizens Utilities Company (Citizens-Delaware) to its California subsidiaries, including applicant herein, shall conform to the staff recommendations set forth in Exhibit 17.

A.55430 b1

4. Failure to conform to the staff recommendations set forth in Exhibit 17 will result in a disallowance of all administrative and office expenses that are allocated to the California subsidiaries of Citizens-Delaware effective one year from the date of this order.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 19th day of July, 1977.

*I will file a dissent.
William S. Jones Jr.*

*I abstain
Gerron L. Sturgeon*

Robert B. ...
President

Richard D. ...
Chairman ...
Commissioners

APPENDIX A
Page 1 of 4

1. Applicant shall, within 180 days after the effective date of this order, prepare and submit to this Commission for approval:

- a. Two eight-year construction plans to replace deteriorated and undersized water mains, services, and other pertinent facilities of Jackson Water Works on a systematic annual basis. One plan should envision an expenditure of \$250,000, the other plan should envision an expenditure of \$500,000.
- b. A financial plan, consistent with paragraph 1.a of this appendix, to show, among other things, the proposed method of financing the long-range construction plan, the annual cost of construction, and the annual increases in gross revenues necessary to provide a rate of return on plant constructed at 8.5 percent, 9.5 percent, and 10.5 percent levels.
- c. A forecast of service requirements for the system in 1985. This should include information on anticipated number and type of customer, and their average and peak hour demands. This information should be aggregated by area in sufficient detail for system plan specified in paragraph d.
- d. A plan indicating the major facilities and water supply source needed to satisfy the demand forecast in paragraph c.
- e. A map showing those areas having less than 25 psi water pressure under static conditions and during the period of maximum usage.

2. Within 90 days after the effective date of this order applicant shall prepare and submit to the Commission for approval:

- a. A schematic diagram of the Jackson Water Works system showing, among other things, the locations and elevations of all sources of supply, treatment, storage, and pumping facilities within the system.

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Page 2 of 4

- b. An operations manual describing in detail; how the system operates under normal conditions; contingency plans covering the failure of major system components; the functions of and operating procedures for all components within the system; the procedures followed in operating the system; meter reading, system flushing, and office and customer accounting procedures; customer service and public relations; and other relevant operating procedures.
- c. A plan to reduce extraordinary water losses in the system.
- d. An estimate of the cost of preparing a system map, of a scale not less than 1"= 400', accurately showing the boundaries of existing service area; the locations, size, type, and approximate date of installation of all transmission and distribution lines; the location of all gate valves, air-release valves, and blowoffs; the location, size, and type of every fire hydrant; the location, capacity, and elevation of all storage tanks; the location and capacity of all treatment and pumping facilities; and the location of all appurtenances in the system.
- e. A system map to be used for the purpose of effectively flushing the water system with regular frequency. Among other items, the map should show and identify all valves, blow-offs, and fire hydrants in the system to enable the operating personnel, by manipulation of valves and hydrants, to create a scouring velocity in the transmission and distribution lines to effectively and systematically flush the entire system at regular intervals.
- f. A schedule for systematically flushing the entire system at regular intervals.
- g. A plan to improve its relations with its customers. This plan should discuss, but need not be limited to, the following:

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Page 3 of 4

A notification procedure for predictable outages or impairment of water quality or pressure.

Standards for the time allowed company personnel to respond to customer complaints.

Formation of customer advisory panels and scheduled meetings with management.

Greater flexibility in applying tariff rules, particularly shutoff for nonpayment of bills.

Use of the local press to explain the reason for service problems.

Company guidelines for the behavior of personnel toward customers and for the company's responsibilities to its customers.

Procedures for keeping the local representatives better informed on matters relating to their service area.

3. Within 90 days after the effective date of this order applicant shall install and make operable corrosion control treatment facilities satisfactory to the State Department of Health and the standards of the Environmental Protection Agency, when effective.

4. Within 90 days from the effective date of this order applicant shall prepare and submit to the Commission for review:

- a. An accurate and up-to-date description for every job classification utilized at Jackson Water Works. The job description should include, among other items, the nature of the job, previous experience needed, special skills required, education levels, licenses required, and the compensation range.

APPENDIX A
Page 4 of 4

- b. A training program for field personnel including, among other items, the information required by this order in paragraphs 2.a, 2.b, 2.e, 2.f, and 2.g of this appendix.
- c. A map showing the locations of all leaks and ruptures in the transmission and distribution lines occurring during the past five years. The map shall be updated and filed annually.
- d. An effective water conservation plan.
- e. Procedures and forms necessary to maintain a system log to record water production, pressure, quality, and chemicals added; the occurrence of major service problems; and the dates of preventative maintenance of major items of equipment and mains flushing.

A. 55430 - D. 87609

JACKSON WATER WORKS RATE INCREASE APPLICATION

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

Without a balanced approach by the government, the utility-provider, and the customer-consumer, problems in this system will not be resolvable. All parties must understand and deal with the limitations inherent in a small water system.

Local customers cannot demand improved water quality from this turn-of-the-century system while at the same time, by a percentage of 68 to 7 flatly refuse any rate increase to pay the cost of improving the water.^{1/}

The utility enterprise must not make investments in new facilities, thus increasing rate base and driving up rates, unless necessary and desirable from the customers' point of view. The company must manage resources carefully to maintain good service at reasonable rate levels.

And the government, which has a monopoly on coercive power over the citizens and their economic organizations, must wield power responsibly.

In this instance, that government power, is wielded by the Public Utilities Commission. Unfortunately, I find that the Commission exceeds good judgment in its rough and unfair treatment of the applicant company. This particular company has been punished by similar treatment for some time (see Dissenting Opinions Application No. 54960 re: Niles-Decoto District, D.84903, September 16, 1975 and D.85659, April 13, 1976.) Though a small company in the

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Report on the Management Study of: ... Jackson Water Works, Inc. ...
Arthur Young & Co., (Sept. 1976), Community attitude survey,
Chapter IV, Exhibit 5, p. 17.

A. 55430 - D. 87609

California constellation of utility giants, the applicant is prominent as a company who speaks back to the bureaucracy -- and in its arguments does not abandon to government spokespersons the moral "high ground" of public policy. One subtle but unsavory response by Commission majorities has been to disallow one half to two-thirds of actual rate case expenses of the company in making its presentations before the Commission.^{2/} Similar to the Niles-Decoto case, our record here is one of unjustified delay and stall.^{3/} The case before us took a year for hearings and was finally submitted subject to briefs on January 5, 1975. Then the case was snatched back by an order of the presiding commissioner so that "comprehensive management studies" on the six water systems could be made. Stall, pursued as a deliberate policy (which I find to be the case here), and carried to the extremes we see here, visits confiscatory rates upon a utility without the Public Utilities Commission being forthright about what policy it is actually pursuing.

No relief has yet been afforded the utility in this proceeding, now 2½ years old. Petition for interim relief was filed on February 9, 1976. It was renewed on July 19, 1976, but then denied by ruling

^{2/} Id., Chapter IV, Ex. 6.

^{3/} For similar examples of treatment see the record in A.56700 (Francis Land and Water Company). The Applicant requested an increase by filing under the Commission's advice letter procedure (June 24, 1975). After nearly 14 months, staff advised the utility to file an application instead. Hearing on the application did not occur for nearly a year. The case is still unresolved.

of the hearing officer. A final draft of the management study was not completed until September 28, 1976. Petitions for interim relief were filed on October 12, 1976 and again on January 7, 1977 and were ignored. The case drags on. Today's order continues the stall.

Not only is this contrary to law,^{4/} but it is uncalled for by the facts in this case. Unexpectedly, I'm sure to some, the long awaited management study did not reveal any misfeasance or serious deficiency in the six water systems examined, including the Jackson Water Works. Nor was any instance established where Citizens Utilities failed to comply with past Commission orders.^{5/}

Therefore, it is unreasonable of the Commission to still refuse to determine an appropriate rate of return and to deny any measure of rate relief. Since acquiring this system in 1970, Citizens Utilities has shown ample good faith in improving this system. Citizens has made construction expenditures in the range of \$600,000: in excess of the total plant in service when acquired.

Even using staff's conservative estimate, the utility now has \$692,300 worth of plant invested in the water works. Using a long series of questionable downward adjustments, the Commission staff analysis creates a \$32,500 net revenue in 1976. Discounting the

^{4/} See the landmark case of Smith v Illinois Bell Telephone Co., 270 U.S. 557 (1926) at page 591 where the U.S. Supreme Court said: "Property may be as effectively taken by long-continued and unreasonable delay in putting an end to confiscatory rates as by an express confirmation of them ..."

^{5/} Report on the Management Study of: ... Jackson Water Works, Inc. ... Arthur Young & Co., (Sept. 1976), Chapter VI, K "Compliance with PUC Orders", Chapter IV, Subpart K, p. 36-39, together with Exhibit 6.

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largest of these adjustments, the negative income tax adjustment, would give a net operating revenue of \$9,000. Using either the \$32,500 or \$9,000 figure, the rate of return amounts to 4.69% or 1.30% respectively, in either case this is an unreasonably low rate of return that must be addressed. Yet it is not addressed. Instead, Appendix A details 4 pages of plans, forecasts, schematics, manuals that are (1) to be prepared in the next 90 to 180 days, (2) submitted to the Commission for an approval process, (3) undergo "an appropriate demonstration period," and (4) then the Commission will hold further hearings to determine a fair rate of return.^{6/}

It is foolishness, from a cost-benefit perspective, given the small number of water customers, to have their water works gear up to a Pentagon-type planning and report level. These reports and studies must be paid for in increased water rates.

The utility may well balk on behalf of its ratepayers at this excessive expenditure for paperwork. The utility also is justified, based on its experience to date, to balk at the structure of delay built into this order, as well as the uncertainty of being compensated for these expenditures. I was appalled that in the companion case to this, (A.55430, D.87608, p. 13) (accepting the Report on the Management Study) we only allowed the utility to recover \$23,900 of the \$61,200 expended by the utility in the course of producing the very studies that this Commission had ordered.

^{6/} Majority Opinion, Mimeo, p. 30, Finding 4.

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The \$4,200 for the Drossler Report is an example: Not liking the results of the customer attitude survey, which contacted 772 households, the Commission majority refused to reimburse one cent for money laid out by the utility. To discount evidence is of course the right of the Commission, but to order a utility to do a survey, and then without good reason not to allow one cent for the cost of this effort is arbitrary and capricious to the extreme. I conclude that the applicant is being treated improperly and has the right to relief from this oppressive conduct.

San Francisco, California
July 19, 1977


WILLIAM SYMONS, JR.
Commissioner