

ORIGINAL

Decision No. 88829 MAY 16 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CITIZENS UTILITIES)
COMPANY OF CALIFORNIA to increase)
its rates and charges for its)
Sacramento County Water District.)

Application No. 56860
(Filed November 10, 1976;
amended November 30, 1976)

John H. Engel, Attorney at Law, for
Citizens Utilities Company of
California, applicant.
Jack Wright, for Foothill Farm Improvement
Association; and George D. Burma, for
himself; protestants.
Mary Carlos, Attorney at Law, for the
Commission staff.

O P I N I O N

Citizens Utilities Company of California (Citizens-California), Water District for Sacramento County (WDSC), a wholly owned subsidiary of Citizens Utilities Company (Citizens-Delaware), seeks an increase in water rates in a 1978 test year of \$1,533,100 or 94 percent over current rates.^{1/} Citizens-California seeks a rate of return of 10.74 percent on depreciated rate base.

Duly noticed public hearings were held before Administrative Law Judge John Mallory in Sacramento on November 14 through 16, 1977 and in San Francisco on November 17, 18, and 21 and December 20, 1977.

^{1/} Citizens-California seeks a revenue increase of \$418,500 for metered service, an increase in flat-rate service of \$990,700, and an increase in fire protection service of \$103,100. The revenue increase for fire protection service was revised at the hearing.

Evidence was presented on behalf of Citizens-California, the Commission staff, and the property owners of Sabre City Mobile Home Estates. Six customers residing within the WDSC made oral statements in opposition to increases in rates of the magnitude sought in the application. Several of the protestants pointed out that the percentage increase in metered water rates for certain areas exceeds the average increase sought herein.

Description of Citizens-California

Citizens-California, which has its principal office in Redding, California, is a wholly owned subsidiary of Citizens-Delaware, which has its administrative office in Stamford, Connecticut. Accounting, engineering, administrative, and other services are performed for the WDSC at the Redding and Stamford locations. Citizens-California also has an office at Sacramento at which administrative, engineering, and other services are performed for the WDSC.

Description of Facilities

The WDSC consists of six separate water systems known as Lincoln Oaks, Royal Oaks, Arden, Suburban, Parkway, and city of Isleton. These subsystems serve unincorporated communities and subdivisions in Sacramento County adjacent to the city of Sacramento and in the city of Isleton. Rates have not been raised since 1965.

As of September 30, 1977, 23,725 customers were being furnished water service, 21,669 of these are furnished service on a flat-rate basis, and 2,056 being metered. Additionally, 120 private fire protection connections and 1,865 public fire hydrants are serviced.

Rates

Citizens-California presently has eight minimum rate schedules, eight flat-rate schedules, and six private and six public fire protection schedules in the six noncontiguous areas within the district. As proposed by Citizens-California, these schedules would be consolidated into one minimum rate schedule with no allowance for lifeline rates, one flat-rate schedule, one private, and one public fire protection schedule.

Unless the Commission grants a substantial increase, the staff recommends that Citizens-California retain the current rate schedules and that any increase in rates first be directed towards the reduction or elimination, if possible, of the variations in the schedules with the ultimate goal of consolidating them into one service charge schedule.

Staff further recommends that:

- a. The future consolidation include the conversion of minimum rate schedules to service charge rate schedules.
- b. A 300-cubic foot lifeline quantity be included in the service charge schedule.
- c. Any increase in the 300-cubic foot lifeline quantity be less than the average increase.

The order herein authorizes a substantial rate increase.

Therefore, schedules should be consolidated, and the rates adopted herein should reflect the criteria set forth in paragraphs a, b, and c, above.

Staff Examination Of
Accounting Records

The staff report concerning its analysis of Citizens-California's accounting records is set forth in Exhibit 9.

The following tabulation presents a summary of the staff exceptions noted during the examination of the books of account and physical plant of the WDSC.

TABLE I

Summary of Audit Exceptions

:Exception: : No. :	Description	: Amount	:Accumulated : :Depreciation:	Net Adjustment :
<u>Adjustments to Utility Plant</u>				
1	Excessive AFUDC Rate Used	\$36,983	\$ 2,335	\$34,648
2	AFUDC Taken on Meters Purchased	909	43	866
3	Capitalization of Pressure Tank Painting Expense	1,944	881	1,063
4	Understated Retirements of L & D Mains	1,264	1,264	-
5	Capitalization of Fire Hydrant Relocation Expense	300	14	286
6	Linwood Acquisition - Bellingrath Well #2	23,914	8,613	15,301
7	Discrepancies Between CPR's and Actual Plant	<u>19,945</u>	<u>17,647</u>	<u>2,298</u>
	Total Adjustment to Utility Plant	85,259	30,797	54,462
<u>Other Rate Base Adjustments</u>				
6	Linwood Acquisition - Acquisition Adjustment	51,966	-	51,966

Item 7 above is a staff adjustment designed to eliminate discrepancies between Citizens-California's continuous property records (CPR's) and actual plant, as more specifically detailed in Exhibit 9. Citizens-California presented testimony to point out that certain of the apparent discrepancies in the total amount of \$5,481 were incorrect. The witness did not dispute the remainder of the alleged discrepancies between property records and actual plant. We find that Citizens-California's records should be adjusted as proposed by the staff in Item 7 of Exhibit 9, with the exception of adjustments for Tango, Wildrose, Van Maren, A-Parkway and Londonberry Wells, and Rhineway Well No. 2.

The staff adjustments to Citizens-California's books and records set forth in Items 2 through 6 in Table 1 were not disputed by Citizens-California, and the company should be directed to revise its records in accordance therewith.

Rate of Return

The director of the Salomon Brothers Center for the Study of Financial Institutions at New York University presented evidence with respect to a fair rate of return applicable to original cost rate base for the WDSC. The witness selected three methods of financial comparison and analysis to determine his recommended rate of return and return on common equity. Based on his studies, the witness determined that a return on common equity of 13 percent and a rate of return in the range of 11.16 percent to 11.25 percent would be reasonable in connection with Citizens-California's capital structure for a 1978 test year.

A financial examiner from the Commission's Finance Division presented the recommendations of the Commission staff. The witness recommended a rate of return in the range of 8.80 percent to 9.10 percent, which would result in an earning allowance for common equity in the range of 9.74 percent to 10.21 percent on the consolidated capital structure of applicant's parent company, Citizens-Delaware. The witness testified that his report in Exhibit 11 is the same as that presented in

Application No. 56543, Washington Water and Light. Because that report had been prepared several months in advance of the hearing and because the cost of short-term debt had risen since his report had been prepared, the witness recommended that the Commission adopt for this purpose of this proceeding the top of his recommended range, or a 9.1 percent rate of return, which provides an earning allowance for common equity of 10.00 percent on a capital structure consisting of 33.52 percent debt and 66.48 percent equity and an average cost of debt of 7.33 percent.

We adopt the staff recommendation as reasonable. That rate of return and allowance for earnings on common equity is substantially the same as we recently adopted in Application No. 56700, Citizens Utilities Company of California (Felton District) and in Application No. 56701, Francis Land Company. It also corresponds to the 9.0 percent rate of return found reasonable when adequate service is provided in Decisions Nos. 88125 through 88129 (dated November 22, 1977) in applications involving Citizens-California's Guerneville and Montara Water Districts and Larkfield Water Company, North Los Altos Water Company, and Inverness Water Company.

Comparative Summary of Earnings

Citizens-California and the staff presented estimated summaries of earnings for the WDSC for a 1978 test year. The following table compares the revised estimates of applicant, including those for fire protection revenues and expenses set forth in Exhibit 22, and the revised estimates of the staff set forth in Exhibit 11-A.

TABLE 2

CITIZENS UTILITIES COMPANY OF CALIFORNIA
Water District for Sacramento County

Estimated Summary of Earnings For
A 1978 Test Year

Item	Present Rates		Proposed Rates	
	Applicant	Staff	Applicant	Staff
<u>Operating Revenues</u>				
Metered Commercial	\$ 453,200	\$ 451,600	\$ 824,200	\$ 820,800
Flat Rate Commercial	1,075,400	1,131,300	2,053,800	2,184,800
Fire Protection	79,900	92,700	200,700	171,000
Other	28,200	36,100	28,200	52,500
Total Operating Rev.	<u>1,636,700</u>	<u>1,711,700</u>	<u>3,106,900</u>	<u>3,229,100</u>
<u>Operation & Maint. Expenses</u>				
Salaries and Wages	328,900	230,000	328,900	230,000
Materials, Services, & Misc.	110,300	93,900	109,800	93,900
Pumping Power	222,600	222,200	222,600	222,200
Transportation Expense	71,600	60,000	71,600	60,000
Customer Accounting Misc.	78,500	71,700	78,500	71,700
Telephone and Telegraph	3,900	3,900	3,900	3,900
Sales Promotion	700	700	700	700
Total Operation & Maint. Exp.	<u>816,500</u>	<u>682,400</u>	<u>816,000</u>	<u>682,400</u>
<u>Admin. & General Expenses</u>				
Admin. Office Expenses	142,400	75,100	142,400	75,100
Common Plant Expenses	44,300	43,000	44,300	43,000
Legal & Regulatory Comm.	23,600	2,400	23,600	2,400
Insurance	8,600	4,500	8,600	4,500
Injuries and Damages	51,900	13,200	51,900	13,200
Welfare and Pensions	80,800	25,200	80,800	25,200
Rents	200	200	200	200
Miscellaneous and Per Diem	1,000	1,000	1,000	1,000
Management Study Allocation	-	1,900	-	1,900
Total Admin. & General Exp.	<u>352,800</u>	<u>166,500</u>	<u>352,800</u>	<u>166,500</u>
<u>Taxes Other Than Income Taxes</u>				
Payroll Taxes	25,500	20,100	25,500	20,100
Franchise Taxes	3,100	3,200	6,200	3,200
Ad Valorem Taxes	326,400	150,000	441,600	150,000
Total Taxes Other Than Income Taxes	<u>355,000</u>	<u>173,300</u>	<u>473,300</u>	<u>173,300</u>
Depreciation	402,200	347,900	402,200	347,900
Income Taxes	-	(72,500)	250,700	725,400
Total Oper. Rev. Deductions	<u>1,926,500</u>	<u>1,297,600</u>	<u>2,295,000</u>	<u>2,098,400</u>
Net Operating Revenues	(289,800)	414,100	811,900	1,130,700
Average Rate Base	7,827,200	5,601,400	7,827,200	5,601,400
Rate of Return	(3.70%)	7.39%	10.37%	20.19%

(Red Figure)

Rate Base

The following table compares the average depreciated rate base for the WDSC for the test year as developed by the applicant and the staff.

TABLE 3

CITIZENS UTILITIES COMPANY OF CALIFORNIA
Water District for Sacramento County

Comparison of Applicant and Staff Average Depreciated Rate Base
Test Year 1978

<u>Item</u>	<u>Applicant Exhibit 7</u>	<u>Staff Exhibit 11-A</u>	<u>Difference</u>
Utility Plant in Service	\$19,032,100	\$17,137,500	\$1,894,600
Reserve for Depreciation	<u>(2,546,600)</u>	<u>(2,452,000)</u>	<u>(94,600)</u>
Net Utility Plant in Service	16,485,500	14,685,500	1,800,000
Common Utility Plant	52,800	40,700	12,100
Materials and Supplies	20,500	16,000	4,500
Working Cash	14,600	(161,300)	175,900
Minimum Bank Balances	32,800	-	32,800
Non-interest-Bearing C.W.I.P.	187,400	-	187,400
Customers' Advances for Construction	(8,287,500)	(8,301,900)	14,400
Contributions in Aid of Construction	(269,300)	(290,700)	21,400
Reserve for Deferred Income Taxes	<u>(409,600)</u>	<u>(386,900)</u>	<u>(22,700)</u>
Average Rate Base	7,827,200	5,601,400	2,225,800

(Red Figure)

The staff also presented in Exhibit 12-A an alternative development in which the reserve for deferred income taxes is computed in the manner adopted by the Commission in Pacific Telephone and Telegraph Company, Decision No. 87838 in Application No. 53587.

The reserve for deferred income tax computed in that manner is \$601,800, as compared with \$386,900 in the foregoing table. The staff witness estimated that the \$214,900 difference in that reserve would generate \$41,700 in gross revenue reduction for test year 1978. The witness did not recommend that the deferred income tax reserve be computed in the manner adopted in Decision No. 87838 because that decision is stayed pending review by the California Supreme Court.

Citizens-California presented rebuttal testimony and exhibits with respect to the staff development of disputed rate base components.

Utility Plant In Service

The staff and Citizens-California developed their estimates for utility plant in service at the mid-point of the test year, except that Citizens-California rolled back to the beginning of the year additions involving nonrevenue producing items totaling \$876,000. Half of that amount is included in Citizens-California's rate base. Citizens-California asserts that such method was adopted by the Commission in Jackson Water Works, Inc., Decision No. 87609 dated July 19, 1977 in Application No. 55430. The staff conceded that the rollback method is appropriate for major items of nonrevenue plant additions, but failed to make such provision in its exhibit. Citizens-California's method will be accepted.

The balance of the difference results from the estimates for plant additions. Rebuttal Exhibit 32 shows that the staff estimates of net plant additions for 1977 and 1978 are \$1,753,400 less than Citizens-California. Exhibit 41 shows the details of plant additions accomplished by Citizens-California through the close of 1977, and supports Citizens-California's estimates for 1977 and, in part, for 1978.

The record shows that the WDCS is growing rapidly due to new residential and business construction and that additional facilities are required to supply adequate service to new customers. The principal plant excluded by the staff was the treatment plant for the new Persimmon Avenue Well. The treatment plant would allegedly remove iron and manganese which are aesthetic qualities. Citizens-California estimates that the treatment plant will cost \$800,000; however, the estimate is questionable as no construction plans or specifications have been prepared. Citizens-California maintains that the California Department of Health requires that treatment be provided to remove iron and manganese before the Persimmon Avenue Well can be put on line. Exhibit 17 was submitted to support that contention. Exhibit 17 is a letter from a Department of Health staff engineer. In our opinion, it does not constitute an order from the Department of Health. We will not include the treatment plant in our adopted results. Except for the treatment plant, Citizens-California's estimate of net utility plant in service appears to more reasonably represent actual and projected growth of its system; therefore, Citizens-California's estimates less \$800,000 will be accepted.

Common Plant In Service

The staff's estimates conform to methods heretofore adopted in related proceedings and will be accepted.

Materials and Supplies

The staff developed its estimates based on historical data for the years 1974, 1975, and 1976. Rebuttal Exhibit 33 was presented to show that the staff estimates fail to take into account customer growth and inflation, and that the wrong basic data were used. The exhibit shows that if the staff estimate is corrected for an error, the three averages used would increase from \$16,000 to \$17,000. If further adjustment is made to reflect 1977 data, the requirement is for \$22,000. Adjustments for inflation and customer growth further increase the estimate. Citizens-California's estimate is less than shown in its rebuttal exhibit and will be adopted.

Working Cash

The Commission staff estimates include a negative working cash allowance of \$161,300. Citizens-California used a company-wide

lead-lag study as a basis for its estimate. The staff used the simplified basis described in Uniform Practice (U-16) of the Commission's Utilities Division. Rebuttal Exhibit 35 compares the data used by the staff, and adjustments thereto recommended by Citizens-California. The staff estimates assertedly fail to include certain test year allocated expenses and fail to provide for a lag in the collection of revenues for both metered and non-metered services. Citizens-California's revisions to the staff data as shown in Rebuttal Exhibit 35 indicate that working cash allowance developed on the simplified method would be \$57,542 for the test year.

Exhibit 36 shows in detail the development of the test year working cash allowance for the WDSC based on the lead-lag study of Citizens-California which assertedly was approved by the staff for use in related proceedings. That study produces a working cash allowance of \$14,600 for the test year. The lead-lag study of applicant is reasonable and will be adopted.

Minimum Bank Balances

Applicant included \$32,800 for minimum bank balances. The staff excluded any allowance, in accordance with the Commission's holding in Washington Water and Light Co., Decision No. 83610 dated October 16, 1974 in Application No. 54323. That holding was followed in Jackson Water Works Inc., supra. No provision will be made for minimum bank balances.

Non-interest-Bearing CWIP

Citizens-California includes an allowance of \$187,400 for non-interest-bearing CWIP. No provision is made by the staff. The staff witness testified that his original estimate was the same as that of Citizens-California. However, the staff witness revised his estimate at the hearing on the basis that Citizens-California's estimate of the construction work in progress to be carried beyond the test year is included in the staff's estimate of 1978 plant additions. Inasmuch as we have allowed all of 1970 plant additions in the utility plant figure adopted above, no allowance will be made for non-interest-bearing CWIP.

Customers' Advances for Construction
and Contributions In Aid of Construction

Only minor differences appear. We will accept the staff's estimate of these items.

Reserve For Deferred Income Taxes

As reserve for deferred income tax varies with the utility plant, we will adopt an amount based on our adopted net utility plant. We will not use the averaging method developed in the Pacific Telephone proceeding until that method has been approved by the California Supreme Court. (See discussion of federal income taxes, p. 21.)

TABLE 4

CITIZENS UTILITIES COMPANY OF CALIFORNIA
Water District for Sacramento County

Adopted Rate Base
1978 Test Year

Net Utility Plant in Service	\$15,685,500
Common Utility Plant	40,700
Materials and Supplies	20,500
Working Cash Allowances	14,600
Customers' Advances for Construction	(8,301,900)
Contributions in Aid of Construction	(290,700)
Reserve for Deferred Income Taxes	<u>(400,000)</u>
Total	\$6,768,700

(Red Figure)

Operating Revenues

Citizens-California stipulated at hearing that the staff's estimates of metered commercial revenues were reasonable. The difference in revenue estimates for flat-rate commercial service results from the difference in number of customers. We adopt the staff's estimates which are higher than applicant's as we believe the staff's estimates more reasonably reflect the customer growth expected in the test year.

Citizens-California has entered into contracts with the Arden Fire District and the Arcade Fire District under provisions of General Order No. 103 which provide that those districts shall perform maintenance of public fire hydrants within said districts. The contracts have been approved by advice letter filings. Contracts were also under negotiation with the Florin Fire District and the Citrus Heights Fire District. According to Citizens-California's Rebuttal Exhibits 22 and 23, test year operating revenues should be reduced to reflect the lower charges resulting from those contracts and operating expenses should be reduced in the amount that applicant estimates would cover the present cost of maintenance of the fire hydrants. The revenue reductions are \$21,120 under present rates and \$57,006 under proposed rates. The corresponding expense reduction, calculated at \$3 per hydrant, is \$2,739. The adjustments to fire protection revenues and expenses developed in Exhibit 22 are reasonable and will be accepted.

The staff estimate of other revenue was developed by increasing the combined historical revenue totals for construction water and reconnections by its estimated percentage increase in revenues for metered water service. No increase is sought in reconnections charges, or in the tariff sheet applicable to construction water furnished in the Lincoln Oaks subdistrict.^{3/} We adopt as reasonable an estimate of \$36,100.

Operating and Maintenance Expenses

The major differences between applicant and the staff are in the categories of salaries and wages, materials and miscellaneous, transportation expense, and customer accounting.

^{3/} There are no separate tariff sheets for furnishing construction water in other subdistricts.

Salaries and Wages

The difference of \$98,900 in salaries and wages results primarily from the number of employees and from use of different salary and wage levels. Rebuttal Exhibit 24 compares the methods used by staff and applicant. That exhibit adjusts the wage expense of \$230,000 estimated by the staff to reflect increased amounts for overtime wages, for additional employees, to apply the latest known wage rates, and to further adjust wages for expected wage and salary increases. The net adjustment for overtime wage rates of \$10,400 is reasonable and will be adopted.

Applicant estimated that in the test year it will employ 28 persons in the WDSC. Staff estimated 24 persons. Both estimates reflect increased employment above the 1977 level. It appears certain that 27 positions will be filled during the test year. That staffing is adopted for the purpose of this proceeding.

Applicant included in its estimated wage costs trended wages based on its estimate of wage increases would be granted pursuant to wage contracts still to be negotiated. It is the Commission's policy to use only known increases in wages to estimate test year expenses. To the extent that wage increases were not granted or were not part of a negotiated wage contract, the wage increases should be excluded from test year expenses. We adopt wage and salary expenses of \$271,100 for the test year.

Materials and Miscellaneous

The difference of \$15,900 between applicant and staff stems from the different methods used to trend historical expenses. We have reviewed the methods used and accept applicant's revised estimate of \$109,800.

Transportation Expense

The staff's estimate of transportation expenses was based on a projection of historical costs. Applicant's estimate is based upon annualizing the experience of the first six months of 1977, and removing an appropriate charge to construction. Applicant's method appears reasonable and is adopted.

Other Operation and Maintenance Expenses

We will accept the staff's estimate of pumping power, customer accounting and miscellaneous, telephone and telegraph, and sales promotion expense.

Administrative and General Expenses

The principal differences between applicant and staff lie with administrative office expense, legal and regulatory expense, insurance, injuries and damages, and welfare and pensions, and an allocation for a management study of Citizens-Delaware ordered by the Commission.

Administrative Office Expenses

Administrative office expenses are from two sources, Stamford, Connecticut, and Redding, California. Services including general management and supervision, engineering, accounting, financial, legal, and others are performed in Stamford, Connecticut, by Citizens-California for its subsidiaries. Certain management and supervisory, accounting and billing, and other reporting services for 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 benefit of all water operations of that company and affiliate water companies in California.

The Stamford and Redding administrative office expenses are in part charged directly to the subsidiaries, affiliates, and districts for which the expenses were specifically incurred; in part charged to capital accounts; and in part accumulated in clearing accounts and distributed to the subsidiaries, districts, and California affiliates on the basis of an allocation formula called the four-factor formula originated by the staff in 1956.

Based on criteria set forth in prior decisions involving Citizens-California, the staff estimated test year 1977 administrative office expenses to be \$75,100.

A thorough presentation on the allocation of these costs to California for the year 1976 was presented by applicant and the staff in the application of Jackson Water Works, Inc. By Decision No. 87609 dated July 19, 1977 in Application No. 55430, the Commission set forth the total allocations of \$465,000 to all California operations of the Redding and Stamford administrative office expenses. Under the circumstances we will adopt staff's estimate of administrative office expenses for the purposes of this proceeding.

Legal and Regulatory Expenses

The following is a comparison of the estimates of the staff and applicant of the costs of this rate proceeding.

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Difference</u>
Direct Charges Through 9/30/77	\$47,200	\$ -	\$47,200
Estimated Cost of Hearing Preparation	9,900	1,100	8,800
Estimated Cost of Hearing	<u>11,100</u>	<u>3,700</u>	<u>7,400</u>
Total Rate Case Expenses	68,200	4,800	63,400
Annual Amortization ^{1/}	22,700	1,200	21,500

^{1/} Applicant used 3 years versus staff's 4 years.

The staff allowed the salary for an in-house attorney for five days in its estimate of the rate case costs, and did not make any allowance for the Citizens-Delaware Rate Department personnel or Citizens-California personnel participating in the proceedings. The staff also eliminated 50 percent of the salary of witness Bromagem and 69 percent of the salary of witness Stradley from Redding and Sacramento expenses to be allocated, but then did not make provision for charging directly to this rate case the costs of their participation. The staff also did not include any allowance in the rate case expenses for the outside consultant who testified concerning rate of return.

We adopt as reasonable for this proceeding total rate case expenses \$44,600, which amounts are consistent with expenses adopted in Francis Land and Water Co. (Application No. 56700) and Citizens-California (Felton District) (Application No. 56701) and other recent

rate proceedings of Citizens. Such costs should be amortized over a period of three years, inasmuch as we expect the rate increase granted herein to be in effect for that period.

Pursuant to an order issued by Commissioner Robert Batinovich, Citizens-Delaware contracted for a management study, the results of which were the subject of Decision No. 87608. Decision No. 87608, as amended by Decision No. 87776, authorized \$23,900 for the cost of the study to be allocated among the ten California subsidiaries of Citizens-Delaware over five years. Of the total cost \$1,900 per year was allocated to applicant.

We adopt total legal and regulatory expenses of \$16,800 for the test year.

Insurance and Injuries and Damages

The record shows that the staff used historical data for trending purposes which are less than the amounts shown in annual reports filed with the Commission. Testimony in connection with Rebuttal Exhibit 28 indicates that the difference results from failure to include allocated amounts from Stamford and Redding. To be consistent with our method of allocating Stamford and Redding expenses charged to the district, insurance and injuries and damages expenses should include such allocated amounts. We adopt applicant's estimate of insurance expense and of injuries and damages expenses.

Welfare and Pensions

Applicant determined welfare and pension expenses based upon the latest actuarial costs which reflect the significant impact of the recently enacted Federal Employee Retirement Income Security Act (ERISA). Applicant projected a substantial increase in these expenses for test year 1978. Staff's estimate did not take into consideration the effect of ERISA. The staff reduced its estimate by \$8,000 for the costs of the Employee Efficiency Incentive Fund (EEIF). That reduction was based on applicant's 1978 estimate of the EEIF.^{4/}

^{4/} EEIF was disallowed in Decision No. 76996 dated March 24, 1970 in Application No. 48905 (Citizens-California - Guerneville District) as such expense is in the nature of a bonus and should be paid by stockholders.

We adopt applicant's estimate of welfare and pension expenses reduced by the estimated cost of the EEIF, or \$72,800.

Taxes Other Than Income

The difference in payroll taxes between the staff and applicant stems from the difference in their estimate of salaries and wages for the test year. Payroll taxes should be adjusted to reflect the amount of salaries and wages adopted herein, or \$21,000.

Assessments for ad valorem taxes are currently made by the State Board of Equalization. Prior to the 1976-77 tax year, assessments were made by the Sacramento County Assessor. Rebuttal Exhibit 38A shows applicant's estimate of 1978 ad valorem taxes to be \$303,642 at present rates and \$441,446 at proposed rates based on the methods understood by Citizens-California to be used by the State Board of Equalization. That method assertedly uses a combination of the capitalized earning approach and the historic cost less depreciation approach. While it is likely ad valorem taxes will increase with increasing plant, it is not likely they will increase by a large magnitude over the recent past amounts, which for the 1975-76 tax year were \$195,200 and for the 1976-77 tax year were \$192,200. We will adopt an amount based on our adopted plant estimate.

Local franchise taxes which are determined in part by revenues will be adjusted based upon the rates authorized herein.

Depreciation Expense

Both the staff and applicant computed depreciation expense by the straight-line remaining life method and applied the depreciation rates by accounts to the average beginning and end-of-year depreciable plant balances. The depreciation rates were submitted to this Commission in 1973. A new study is to be submitted in 1978. The differences between applicant's and staff's estimates of depreciation expenses and reserves are due to the effect of different estimates of plant additions.

Inasmuch as we adopt Citizens-California's estimate of net utility plant less \$800,000 for the treatment plant, we also adopt its estimate of depreciation expense less \$16,200 for the treatment plant.

Income Taxes

Applicant and the staff used the same principles in calculating income taxes. Their determination of income taxes differ because of differences in revenue and expense levels.

Applicant and the staff used for this proceeding the same procedures for determining tax depreciation (straight-line for federal taxes, and liberalized on a flow-through basis for state taxes) as those used for other rate applications of Citizens-California considered by the Commission since Decision No. 83610 dated October 16, 1974 in Application No. 54323 (Washington Water and Light Co.). The staff recognized in its presentation that a different treatment of tax depreciation was adopted in Decision No. 87838 in Application No. 53587 (Pacific Telephone and Telegraph Co.). The staff showed in Exhibit 11A the revised federal income taxes and the revisions to the reserve for deferred income tax included in rate base that would be necessary if tax depreciation was determined by the method established in Decision No. 87838. The staff witness did not recommend that the Commission follow Decision No. 87838 tax precepts in this proceeding because they were under further review pursuant to a California Supreme Court mandate.

The Commission has now issued its further decision in the remanded proceeding (Decision No. 87838 dated September 13, 1977). Among other things, the Commission found:

"Under the normalization method we are adopting for ratemaking purposes, tax depreciation expense for ratemaking purposes will be computed on a straight-line basis while federal taxes will be computed on an accelerated depreciation basis. The difference between the two tax computations will be accounted for in a deferred tax reserve. The average sum of the test year deferred tax reserve and the deferred tax reserve for the three next subsequent years shall be deducted from rate base in the test year. As a result of each of the deductions from rate based federal tax expense will be recomputed on the same basis in the test year for the test year

and the three corresponding subsequent years, thus matching the estimated tax deferral amount for each period with the estimated federal tax expense for the same period. This method complies with Treasury Regulation 1.167(l) - (l) (h) (6) and is normalization accounting." (Mimeo. page 48.)

No adjustment has been made in federal income taxes, the deferred tax reserve, or in the required revenues in this proceeding in accordance with the precepts adopted in the Pacific Telephone proceeding. However, in Exhibit 12, it is shown that if we were to base rates on the precepts in the Pacific Telephone proceeding, the gross revenue reduction would be \$41,700 due to the change in the reserve for deferred income tax and \$7,500 due to change in investment tax credit. Any increase authorized by this decision will be subject to refund together with appropriate interest pending the final outcome of the remand tax issue.

For the purposes of this proceeding, income taxes will be determined by methods used by the staff based on the net revenue resulting from the rate increase authorized herein. The staff report sets forth a net-to-gross multiplier of 2.154, based on a California corporation franchise tax rate of 9.0 percent, federal income tax rate of 48 percent, and local franchise tax rate of 1.89 percent of revenue.

Recently we imputed test year federal income taxes on an as-paid basis, rather on the method used by applicant and the staff. However, we cannot determine from this record (or from the record in current related proceedings) whether any federal income taxes for 1978 will be paid by the actual tax-paying entity (in this case, Citizens-Delaware).^{5/} It is our

^{5/} In recent rate increase proceedings involving Air California (Decision No. 87938 dated October 4, 1977 in Application No. 56790) and Pacific Southwest Airlines (Decision No. 88180 dated November 29, 1977 in Application No. 56973) no provision was made in test year operating results because the parent company of each airline would incur no federal income tax liability in the test year.

intent in future proceedings involving Citizens-California and other subsidiaries of Citizens-Delaware to disallow any provision for federal income taxes unless it can be shown that such taxes are actually being paid. If such taxes are paid, we intend to make provision for federal income taxes in relationship to Citizens-Delaware's total estimated tax liability for the test year.

We direct our Finance Division to make an investigation and to report in the next rate increase proceeding involving subsidiaries of Citizens-Delaware concerning the amount of federal taxes actually paid by it in the most recent historical period and whether Citizens-Delaware may be expected to incur a federal tax liability in the test year involved in the rate proceeding.

Adopted Results of Operation

The following table sets forth the adopted results of operations for a 1978 test year under present, proposed, and authorized rates. The estimated annual revenue increase under authorized rates is \$764,700, or 45.0 percent.

TABLE 5

CITIZENS UTILITIES COMPANY OF CALIFORNIA
Water District for Sacramento County

Adopted Summary of Earnings For
A 1978 Test Year

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
<u>Operating Revenues</u>			
Metered Commercial	\$ 461,600	\$ 820,800	\$
Flat Rate Commercial	1,131,300	2,184,800	
Fire Protection	79,900	200,700	
Other	28,200	28,200	
Total Operating Rev.	<u>1,701,000</u>	<u>3,234,500</u>	<u>2,465,700</u>
<u>Operation & Maint. Expenses</u>			
Salaries and Wages	271,100	271,100	271,100
Materials, Services, & Misc.	109,800	109,800	109,800
Pumping Power	222,200	222,200	222,200
Transportation Expense	71,600	71,600	71,600
Customer Accounting Misc.	71,700	71,700	71,700
Telephone and Telegraph	3,900	3,900	3,900
Sales Promotion	700	700	700
Total Operation & Maint. Exp.	<u>751,000</u>	<u>751,000</u>	<u>751,000</u>
<u>Adm. & General Expenses</u>			
Admin. Office Expenses	75,100	75,100	75,100
Common Plant Expenses	43,000	43,000	43,000
Legal & Regulatory Comm.	16,800	16,800	16,800
Insurance	8,600	8,600	8,600
Injuries and Damages	51,900	51,900	51,900
Welfare and Pensions	72,800	72,800	72,800
Rents	200	200	200
Miscellaneous and Per Diem	1,000	1,000	1,000
Total Admin. & General Exp.	<u>269,400</u>	<u>269,400</u>	<u>269,400</u>
<u>Taxes Other Than Income Taxes</u>			
Payroll Taxes	21,000	21,000	21,000
Franchise Taxes	32,000	61,100	59,000
Ad Valorem Taxes	269,800	269,800	269,800
Total Taxes Other Than Income Taxes	<u>322,800</u>	<u>351,900</u>	<u>349,800</u>
Depreciation	386,000	386,000	386,000
Income Taxes	(316,900)	490,900	93,500
Total Oper. Rev. Deductions	<u>1,412,300</u>	<u>2,249,200</u>	<u>1,849,700</u>
Net Operating Revenues	288,700	985,300	616,000
Average Rate Base	6,768,700	6,768,700	6,768,700
Rate of Return	4.3%	14.6%	9.1%
	(Red Figure)		

Quality of Water and Service to Customers

Applicant presented Exhibit 19, which is a compilation of complaints received by it during the 10-month period ending October 31, 1977 with respect to its WDSC. Of the 140 complaints received, 40 concerned low pressure, 40 were related to dirt or water color, 13 were about excessive air in the water, and 47 concerned taste or odor. Sixty-six of the informal complaints were from the Suburban water system. Testimony indicated that a great deal of new construction was in progress in the Suburban area in the period in question. Temporary construction lines affected water pressure and required a higher than usual chlorination level which affected taste, odor, and water color.

The witness for Citizens-California explained that discoloration of water in the Isleton area resulted from an improved filtration and from a stepped-up main flushing program. The higher quality water resulting from the improved filtration procedures assertedly breaks down mineral encrustations in old mains, requiring heavy flushing which, in turn, causes poor quality water while flushing operations are taking place. According to the witness, discoloration will disappear in the near future as the need for heavy flushing of mains becomes unnecessary.

The staff report states that the water plant appears to have been designed and constructed to meet the requirements of this Commission's General Order No. 103. Water quality appears to be satisfactory throughout the service area. The report indicates that there have been incidents of customer complaints concerning quality, but it does not appear to be a recurring problem in any one area. There

have been 13 informal complaints filed with this Commission during 1977. Nine of the complaints resulted from disputes concerning shut-offs and reconnects. The report states that the utility's aggressive policy in this matter is evidently an irritant to a significant number of customers. The other four informal complaints involved billing disputes. The informal complaints have been satisfactorily resolved.

The Commission issued interim orders in Inverness Water Company (Decision No. 88129), Larkfield Water Company (Decision No. 88126), and Citizens Utilities Company of California (Guerneville Water District) (Decision No. 88125), and directed Citizens-California to file plans for improvements of those water systems to bring them up to reasonable operational standards. Pending completion of such improvements, authorized rate increases were limited to earnings which produced the last authorized rate of return for each system, which ranged from 4.25 percent to 7.7 percent. When the required service improvements are made, water system revenues will be adjusted to produce a rate of return of 9.0 percent.

The service problems that were shown to exist in Inverness, Larkfield, and Guerneville do not exist with respect to WDSC, and no corresponding improvement plan or rate of return adjustment appears necessary in this proceeding. ✓

Conservation

Data was presented in behalf of Citizens-California concerning the conservation programs initiated by it in its WDSC. In addition to the materials and data supplied to customers in response to the Commission's directives in Case No. 10114--Water Conservation, Citizens-California described other water conservation practices. Inasmuch as the district does not meter residential services, efforts were primarily directed to furnishing information to the public. ✓

Citizens-California's Exhibit 4 contains comparisons of water usage for the months of January through September for 1975, 1976, and 1977. The total consumption for the nine-month period in 1975 was 5,297.9 million gallons, in 1976 it was 6,649.1 million gallons, and in 1977 it was 4,970.9 million gallons. The water usage in 1977 was 28.25 percent less than in 1976.

The staff study (Exhibit 11) contains its analysis of the effect of conservation on revenues and power expense for the years 1977 and 1978. The staff concludes that the loss in metered revenues is offset by the savings in pumping power expense for each year. Revenue losses are from metered customers while power expense savings are derived from both flat-rate and metered customers. Data available to staff indicate that conservation efforts did not affect metered customers until 1977; in fact, 1976 recorded consumption was significantly higher than normalized consumption.

Based on the limited data furnished in this proceeding, it appears that Citizens-California's water conservation program is effective and conforms with the intent and purpose of our directives in Case No. 10114.

Metering Requirements

Subsequent to the submission of this proceeding the Commission adopted the policy that all water utilities should be fully metered and a metering program should be presented as part of any water utility rate proceedings.

Exhibit 20, introduced by applicant, sets forth estimates of the cost of metering the WDSC. That exhibit shows that 18,852 flat-rate services should be metered. Based on a 1977 unit cost of \$225 per meter, adjusted for inflation in succeeding years, applicant estimates that the total cost of meters and installation over a three-year period culminating in 1980 is \$5,591,800. The total additional annualized costs of operation, including depreciation, at the end of the three-year period are estimated to be \$1,267,900, or an average monthly cost per meter of about \$5.60. There are no data in the record to rebut these estimates.

The applicant believes that the cost of metering all flat-rate services in the WDSC exceeds the conservation and other benefits to be achieved therefrom. In the circumstances, we will not at this time require that applicant meter all flat-rate services in its WDSC. Applicant is placed on notice that it will be required to submit a metering plan in connection with its next rate proceeding involving this district.

Findings

1. The WDSC is in need of additional revenue, but the proposed rates set forth in the application are excessive.
2. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for the test year 1978 are reasonable.
3. A rate of return of 9.1 percent on the adopted rate base of \$6,768,700 is reasonable. Such rate of return will provide a return on equity of approximately 10 percent.
4. The increase in rates and charges authorized herein are reasonable, and the present rates and charges insofar as they differ from those prescribed herein are for the future unjust and unreasonable. The rate increase is justified.
5. WDSC's earnings under present rates from its operations during the 1978 test year would produce net operating revenues of \$288,700 on a rate base of \$6,768,700 based on the adopted results of operation, resulting in a rate of return of 4.3 percent.
6. The authorized increase in rates is expected to provide annual increased revenues of \$764,700.
7. Applicant is providing an adequate level of water service in its WDSC.

Conclusions

1. The Commission concludes that the application should be granted to the extent set forth in the order which follows.
2. Metering of all flat-rate customers within the WDSC should not be required at this time, but Citizens-California should be placed on notice that a metering plan should accompany any future rate increase application.
3. The increases authorized in this decision, together with interest charges based on an annual rate of 7 percent, should be subject to refund pending the final determination of the issues in the Pacific Telephone proceeding now pending in the California Supreme Court.

O R D E R

IT IS ORDERED that:

1. Citizens Utilities Company of California (Citizens-California), Water District for Sacramento County (WDSC), is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. Such filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff schedules shall be four days after the date of filing. The new and revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.
2. All cost accounting procedures of 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 the proceedings on Jackson Water Works, Inc. in Application No. 55430 (Exhibit 17) as previously ordered in Decision No. 87609. Failure to do so will result in disallowance of all administrative and office expenses that are allocated to the California subsidiaries of Citizens-Delaware effective July 19, 1978.

3. Citizens-California, WDSC, shall adjust its books of account to reflect the staff's exceptions set forth in Exhibit 9, Items 2 through 6 and Item 7, as revised in this decision.

4. All increased rates and charges filed pursuant to this order shall be collected subject to refund with appropriate interest.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 16th day of MAY, 1978.

Robert Bateman
President
William J. Quinn
Vernon L. Sturgeon
Robert D. Clark
Clair T. Hedrick
Commissioners

APPENDIX A
Page 1 of 4

Schedule No. 1

Water District for Sacramento County

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 3.25
For 3/4-inch meter	3.60
For 1-inch meter	5.00
For 1 1/2-inch meter	6.50
For 2-inch meter	9.00
For 3-inch meter	16.25
For 4-inch meter	22.00
For 6-inch meter	36.75
For 8-inch meter	55.00

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

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	\$ 0.14
For all over 300 cu.ft., per 100 cu.ft.19

APPENDIX A
Page 2 of 4

Schedule No. 2R

Water District for Sacramento County

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single family residence, including premises not exceeding 8,000 sq.ft. in area	\$5.70
a. For each additional residence on the same premises and served from the same service connection	3.75
b. For each 1,000 sq.ft. or part thereof of the area in excess of 8,000 sq.ft.20

SPECIAL CONDITIONS

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

APPENDIX A
Page 3 of 4

Schedule No. 4

Water District for Sacramento County

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for private fire protection purposes.

TERRITORY

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

RATES

Per Month

For each 4-inch connection, or smaller	\$12.00
For each 6-inch connection	20.00
For each 8-inch connection	28.00
For each 10-inch connection	36.00
For each 12-inch connection	50.00

SPECIAL CONDITIONS

1. The customer will pay without refund the entire cost of installing the service connection.

2. The maximum diameter of the service connection will not be more than the diameter of the main to which the service is connected.

3. The customer's installation must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check with by-pass meter or other similar device acceptable to the company which will indicate the use of water. The utility may require a bi-annual test of the detector check installation at customer cost as a condition of furnishing service. Any unauthorized use will be charged for at the regular established rate for general metered service, and/or may be grounds for the company's discontinuing the fire sprinkler service without liability to the company.

4. The company will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.

APPENDIX A
Page 4 of 4

Schedule No. 5

Water District for Sacramento County

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the state.

TERRITORY

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

RATES

Per Hydrant
Per Month

Single Outlet	\$3.50
Double Outlet	5.50
Triple Outlet	6.75

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under the applicable general metered service schedule.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.