

ORIGINAL

Decision No. 89321 SEP 6 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WASHINGTON WATER AND LIGHT
COMPANY to increase its rates and charges
for its water system serving the unincor-
porated communities and subdivisions of
West Sacramento, Bryte, Broderick, the
Port of Sacramento, Arlington Oaks, Linden
Acres and Southport Development in Yolo
County.

Application No. 56543
(Filed June 9, 1976;
amended October 12, 1977)

John H. Engel, Attorney at Law, for
applicant.

Richard Massa, Attorney at Law, for
East Yolo Community Services District
and C. Lee Humes, Attorney at Law, for
Washington Unified School District and
County of Yolo, protestants.

Mary C. Carlos, Attorney at Law, James M.
Barnes, and Ray Charvez, for the
Commission staff.

O P I N I O N

Applicant Washington Water and Light Company, a wholly owned subsidiary of Citizens Utilities Company (Citizens), seeks authority to increase rates for water service. Under the application, the proposed rates would increase revenues by a total of \$567,700 annually, or 76 percent for applicant's test year 1977. The application also requests that should the Commission direct applicant to undertake a construction program that the Commission authorize it to put into effect step-rates to produce the revenues required to cover the capital and operating costs of the facilities constructed.

Public hearings were held before Administrative Law Judge Gillanders in West Sacramento on October 11 and 12 and December 8 and 9, 1977; and in San Francisco on December 12, 19, 27, 28, and 29, 1977. Copies of the application were served and notices of filing of the application and of the hearing were published, mailed to customers, and posted in accordance with this Commission's Rules of Practice and Procedure. The matter was submitted on December 29, 1977, subject to the filing of late-filed exhibits which were received on February 10, 1978.

Service Area and Water System

Applicant provides water service to an area in the easterly part of Yolo County which includes the unincorporated areas of Broderick, Bryte, West Sacramento, and Southport, and the Port of Sacramento. As of August 1977, applicant was serving 5,208 flat-rate and 840 metered customers, 46 private fire connections, and 480 public fire hydrants.

Water is obtained from 22 wells. The Northeast Treatment Plant is a five million gallon per day pressure sand filter facility which treats all the water produced from Wells Nos. 2, 10, 13, and 21, which produce an average of about 2.75 million gallons per day. The Southport Treatment Plant, which was placed in operation in April 1974, has a capacity of 1.7 million gallons per day and is designed for expansion to 7 million gallons per day; it treats the water produced by Wells Nos. 19 and 20, which produce an average of about 0.5 million gallons per day. Water produced at all other wells, except Well No. 1 which is used on a standby basis, is being chemically treated for iron and manganese at each of the pumping locations.

Storage is provided by five steel tanks at four locations with combined capacity of over 1,600,000 gallons. Exclusive of service piping, the distribution system includes approximately 458,000 feet of mains, varying in size from 2 inches to 24 inches, about 98 percent of which are 4 inches or over. Some 363,300 feet are cement asbestos mains ranging in size from 4 inches to 24 inches.

Conservation

Applicant has an extensive conservation program in effect which includes such things as spot radio and TV announcements in cooperation with other water purveyors, working with TV and radio stations to explain conservation programs, distributing conservation kits, mailing bill inserts, and advertising in local newspapers and other local publications with regard to water conservation. Applicant also distributes store window, counter display, and tent cards relating to conservation, and its personnel are alerted to inform customers of water waste when it is observed. Applicant has worked closely with the Yolo County Economic Opportunity Commission (EOC) which it has supplied with conservation material including shower restrictors, replacement faucet washers, toilet tank displacement bags, and printed information. EOC personnel have, on a door-to-door basis, installed these materials in East Yolo homes.

Applicant's conservation program has been effective. Water production was down in each month of 1977, and for the nine months ending September 1977, water production was down 32.7 percent from the same period in 1976.

Rates

Applicant proposes to increase its general metered, general flat-rate, special flat-rate industrial service, private fire protection, and public fire hydrant schedules by 76 percent on the average. The basic metered rate would increase from \$3.85 to \$6.80; the basic flat-rate from \$5.55 to \$9.80.

Rate of Return

Applicant contends that a reasonable rate of return would be no less than 12.15 percent. The staff recommends a range for a rate of return from 8.8 to 9.1 percent, which would result in a return on common equity from 9.74 to 10.08 percent, respectively.

Rate of return is a judgment determination which the Commission must make in an impartial manner. In addition to the constitutional requirements, consideration must be given to such factors as financial requirements for construction, the amount of funds available from advances and contributions for construction, the impact of high interest rates, earnings of other utilities, the effect upon consumers and investors, capital structure and quality of service rendered.

The staff introduced comparisons for the five years, 1972 through 1976, relating to earning rates on average capital and common stock equity together with interest coverage for 10 combination utilities, 8 regional water companies, and 7 Class A California water utilities.

According to applicant, the capital structure of Citizens is less risky in the financial sense than most utilities, in that its 64 percent equity ratio is well above the level of other utilities. Applicant contends, however, that because of the nature of its operation its business risk is higher than that of other utilities, as evidenced by its history of earnings, and this factor offsets any reduced financial risk attributable to its capital structure.

The staff's testimony and exhibits are persuasive. In view of applicant's unsatisfactory service which is discussed elsewhere in this decision, a rate of return of 8.8 percent resulting in a return on common equity of 9.74 percent is adopted.

Operating Revenues

The following is a summary of applicant's and staff's estimates of operating revenue at present rates for the test year 1977:

<u>Operating Revenues</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
Metered	\$277,400	\$280,500	\$ (3,100)
Flat Rate	404,800	414,300	(9,500)
Fire Protection	27,800	27,900	(100)
Other	6,100	6,200	(100)
	<u>\$716,100</u>	<u>\$728,900</u>	<u>\$ (12,800)</u>
	(Red Figure)		

Applicant and staff estimated 1977 commercial metered revenues using a water use and revenue table for the year 1976. The main difference between applicant and staff results from their estimates of 1977 test year metered customers. Applicant used an estimated increase of 72 metered customers, for an average of 837 metered customers. Staff assumed the addition of 135 metered customers, including 66 new customers in the Elkhorn Village development, for an average of 880 metered customers. However, there was no home construction in Elkhorn Village in 1977, and no customers were added. The actual average number of metered customers for 1977 was 832, which is less than the 837 used by applicant and far less than the 880 estimated by staff.

The main difference between applicant and staff in flat-rate revenues is in the additional billing units estimated by the staff for the test year. Staff estimated 736 average additional billing units, while applicant estimated 460. The actual average additional billing units for 1977 was 447. Because of this staff estimated flat-rate revenues on the basis of 5,941 average units, while applicant used 5,681 average units, which was close to the actual of 5,653 average flat-rate units.

Applicant's determination of operating revenue at present rates is reasonable and is adopted herein.

Operating and Maintenance Expenses

The summary of earnings indicates a difference between applicant and staff of \$900 in operation and maintenance expense estimated for test year 1977. 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	\$115.9	\$111.6	\$ 4.3
Purchased Power	159.5	168.7	(9.2)
Materials & Misc.	70.1	65.7	4.4
Customer's Acctg. & Misc.	20.5	20.1	.4
Transportation	16.2	15.0	1.2
Telephone & Telegraph	2.6	2.7	(.1)
Uncollectible Accounts	.5	.6	(.1)
Total	\$385.3	\$384.4	\$.9

(Red Figure)

The difference of \$4,300 in salary estimates is due primarily to the use of different salary and wage rate levels. The staff used the levels in effect as of December 31, 1976. Applicant made its determination on the basis of the wage and salary rates in effect in September 1977, except for one clerk who received a 10 percent increase on December 1, 1977. It is preferable to use the latest known salary rates to estimate salaries and wages. Using the staff method and positions to determine salaries and wages but applying the latest known rates, results in salaries and wages expenses of \$116,650 for test year 1977, compared to applicant's estimate of \$115,900.

The staff's estimate of purchased power expense exceeds that of applicant by \$9,200 because of its higher estimate of water production. Since we adopt applicant's estimate of operating revenues based upon its estimate of production, we will also adopt applicant's estimate of test year purchased power expenses.

In materials, services, and miscellaneous expenses, applicant and staff disagree by \$100 for chemical costs. The staff's estimates for other accounts included in materials, services, and miscellaneous are five-year averages for the period 1972 to 1976 with each year adjusted for the Department of Labor's Wholesale Price Index. Applicant followed the same approach, but used components of the Wholesale Price Index. However, the staff inadvertently omitted the expenses recorded in Account No. 742, Operation Labor and Expenses, for the year 1976 in projecting its 1977 expenses.

The staff's estimate of transportation expense was based on 1976 recorded data. Applicant's estimate is based upon annualizing the experience of the first six months of 1977, and applying the appropriate charge to construction factor. This method is consistent with actual 1976 where applicant's first six months transportation charges were 50 percent of the year's total. Transportation charges were up 11.5 percent for the first half of 1977 over 1976.

Applicant's estimates of test year 1977 operation and maintenance expenses are reasonable and will be adopted.

Administrative and General Expenses

The following table sets forth the 1977 estimates of applicant and staff of administrative and general expenses; and our adopted amounts.

<u>A&G Expenses</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
	(Dollars in Thousands)		
Allocated Expenses from			
Stanford	{ \$ 50.3	\$ 6.7	\$ 6.7
Redding		20.9	20.9
Sacramento		17.8	17.8
Legal & Regulatory Expenses	22.1	3.8	7.2
Insurance	2.7	2.5	2.7
Injuries & Damages	15.6	5.9	15.6
Welfare & Pensions	27.2	10.1	21.3
Rent	5.1	5.1	5.1
Miscellaneous & Per Diem	2.9	.5	.5
Total	\$144.1	\$73.3	\$97.8

In support of its estimates for administrative office expenses, applicant asserted that:

1. Administrative office expenses are from two sources, Stamford, Connecticut, and Redding, California.
2. Services including general management and supervision, engineering, accounting, financial, legal, and others are performed in Stamford, Connecticut, by Citizens for its subsidiaries.
3. Certain management and supervisory, accounting and billing, and other reporting service for Citizens Utilities Company of California (Citizens-California) and its California affiliates, including applicant are performed at an administrative office in Redding, California.
4. In addition, certain plant in the Sacramento office of Citizens-California is used for the benefit of all water operations of that company and affiliated water companies in California.
5. 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.

In support of its estimates for allocated expenses from administrative offices, staff asserted that:

1. Administrative costs flow from three support offices: Stamford, Redding and Sacramento.
2. The administrative costs are spread by direct charges or allocations to utility plant or expenses.
3. For a number of reasons, it is difficult to reduce data to a point where reasonable judgments can be made on the basis of recorded cost evidence.

4. Therefore, to determine reasonable allowances for allocations, staff utilized the following criteria:
 - A. The Washington Water and Light Company requires certain specific support functions. The support comes from Sacramento, Redding, and Stamford.
 - B. Sacramento provides certain support functions for all California water affiliates. Redding provides certain support functions for all California affiliates, both water and telephone. Together, they have the capacity to provide nearly all the support required by the California affiliates including Washington Water and Light Company.
 - C. The California affiliates require certain support services from Stamford. The services include executive, legal, financial, insurance, and tax functions.
 - D. The California affiliates require those services only in proportion to their parts of the entire Citizens Utilities' operation. The four-factor allocation utilized by this Commission is an equitable way of distributing the reasonable expenses for those services.
5. On that basis, the salaries and overhead for certain specific positions from the three administrative offices were totaled and allocated by the four-factor formula.
6. The overall reasonableness of staff's estimates are verified by comparisons with the administrative expenses adopted by this Commission in connection with applicant's most recent service of rate proceedings; i.e., Decision No. 87609 in Application No. 55430 of Jackson Water Works, Inc.

We considered the difficulty of determining reasonable allowances for administrative office costs in the Jackson proceedings, Decision No. 87609. To help rectify the difficulty for future proceedings, we ordered applicant to adopt certain accounting procedures, recommended by staff, which essentially are to assign directly, to the extent possible, the salaries of various administrative office personnel to the properties for which they spend time working, and to allocate related expenses on the basis of those salaries.

At the same time, we rejected applicant's revised estimates in that proceeding which 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 reason we rejected applicant's revised estimates is that no historical data had been developed, e.g., accurate time-keeping records.

In the instant proceeding, applicant asserted that: (1) it put into effect, commencing January 1, 1976, a procedure which conforms with those we ordered, (2) it incorporates a time reporting system under which the members of the various departments in the reporting system maintain time records on a daily basis, showing the amount of time worked for specific properties, and (3) the related salaries and expenses are charged directly to those properties and not allocated under the four-factor formula.

We note, however, that applicant did not mention this accounting change in its "Report on the Results of Operation of Washington Water and Light Company, Years 1974 and 1975 Recorded and Pro Forma Years 1976 and 1977", Exhibit 24; nor did it submit a General Report on the Results of Operation as it did in its Jackson proceeding and its subsequent Sacramento Company proceeding. It is in such a General Report that the applicant's basis for allocating administrative expenses are established. Moreover, even assuming a procedure which conforms to those we required was put into effect commencing January 1, 1976, it is our opinion that the period is too short to develop a history that would be useful in this proceeding.

The staff's criteria upon which it based its estimates for allocated administrative expenses are reasonable. They do not conflict with the accounting procedures which we ordered in the Jackson proceeding. We will adopt the staff's estimate for allocated administrative office expenses. This treatment is consistent with Decision No. 88829 of May 16, 1978 on Citizen's Sacramento County Water District.

Legal and Regulatory Expenses

Applicant estimated the costs of this rate case to be \$44,782 comprised of attorney's fees, expert witness fees (who, with one exception, are employees of applicant), and overhead. Applicant proposes to amortize the rate case expenses over a three-year period, which historically is the period in which it filed rate increase applications, i.e., August 1970, September 1973, and June 1976. To the annual amount of \$14,900 for the rate case expenses, applicant would add \$4,600 for the unamortized balance of the cost of its prior rate base, amortized over a three-year period, and \$2,600, the average of the miscellaneous recorded expenses in 1975 and 1976.

Staff estimated the expense of this rate case to be \$4,500 comprised of allowances for an in-house attorney, whose salary was not included in staff's allocation of administrative office expenses, and overhead. Staff used a four-year amortization period. In its estimate for the expense of this proceeding, staff made no allowance for an outside consultant, an engineer of Brown and Caldwell, who testified concerning the construction plan necessary to improve the aesthetic quality of the water, and responded to questions raised concerning the inclusion of certain plant in rate base. To the annual amount of \$1,100 for the rate case expenses, staff added \$4,000 for unamortized portion of our adopted rate case expense for the 1973 proceeding, amortized over a four-year period, and \$1,700, the average of the miscellaneous recorded expenses for the last five years.

Pursuant to an order issued by Commissioner Robert Batinovich, Citizens 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 10 California subsidiaries of Citizens over five years. Of the total cost 20.67 percent was allocated to applicant, or \$988 per year.

We adopted the staff's estimates for allocated administrative office costs which included provision for in-house preparation of rate proceedings, and we will adopt staff's estimate of \$4,500 for this proceeding plus \$5,000 which is applicant's estimate of the cost for an outside consultant. We will adopt applicant's proposal for a three-year amortization period. We will allow the \$4,000 unamortized portion of the 1973 rate proceeding to be amortized over three years. We will adopt staff's estimate of \$1,700 for miscellaneous expenses to which we will add \$1,000 as provided for in Decision No. 87776.

Other Administrative and General Expenses

The staff used 1976 recorded injuries and damages expenses as its estimate for test year 1977. Applicant testified that (1) flat-rate premiums alone increased almost 200 percent since 1976, (2) other policy premiums based on the number of customers increased some 28 percent, and (3) workers' compensation rates increased 68 percent. We will adopt applicant's estimate for injuries and damages expense.

Applicant testified that its estimates of welfare and pension expenses are based upon the latest actuarial costs which reflect the significant impact of the recently enacted Federal Employee Retirement Income Security Act (ERISA). Applicant projected an increase in these expenses of 94 percent for test year 1977. Its welfare and pension costs were up 98 percent for the first six months of 1977. The staff's estimate was based upon 1976 recorded expense less an estimate of \$4,600 for the costs of the Employee Efficiency Incentive Fund (EEIF) which amount applicant had included in its original estimate. However, there were no EEIF payments included in the 1976 expenses. The staff's estimate does not include the significant increase in costs attributable to ERISA nor does it allow for the fact that salaries, upon which these costs are based, have increased. Applicant's estimate of welfare and pension expenses less its \$5,900 estimate for EEIF will be adopted.

Applicant's estimate of miscellaneous and per diem expenses of \$2,900 is based upon the two-year average recorded levels. The staff's estimate of \$500 for 1977 is the average recorded for the last five years. Staff's estimate will be adopted.

Taxes Other Than Income Taxes

The following is a tabulation of applicant's and the staff's estimate of 1977 test year taxes other than income taxes, and our adopted amounts:

<u>Taxes Other Than Income Taxes</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
	(Dollars in Thousands)		
Ad Valorem Taxes	\$133.8	\$69.6	\$65.4
Payroll Taxes	9.2	8.9	9.2
Local Franchise Taxes	5.2	4.3	5.2
	<u>\$148.2</u>	<u>\$82.8</u>	<u>\$79.8</u>

At the hearing, the staff witness revised his ad valorem tax estimate to \$69,600 to reflect, among other things the effect of excluding from rate base certain facilities south of the Barge Canal, the diatomaceous earth filter plant, and the Northeast Treatment Plant.

Applicant originally computed ad valorem taxes using the effective tax rate on plant in service, developing its estimate of \$133,800, utilizing the principle of rollback of nonrevenue producing plant additions. Due to the anomalies resulting from the Fazio Bill, it is our opinion that 1977 recorded data is more useful in some respects than 1977 normalized data for this proceeding. Our reasons are discussed under rate base where we conclude that Washington Water and Light Company's 1977 Annual Report to the Commission provided the best evidence for 1977 utility plant in service. We will adopt 1977 recorded ad valorem taxes. We will require applicant to reduce its gross revenues by \$39,800 ad valorem tax savings resulting from the recently enacted Article XIII-A to the State of California Constitution. We will adopt \$65,400 as a reasonable estimate of ad valorem taxes for the 1977 test year after adjustment for the tax benefit made possible by the enactment of Article XIII-A to the State of California Constitution.

Both applicant and the staff determined payroll taxes based upon 1977 tax rates applied to their determinations of salaries and wages. The staff's estimate of payroll taxes is lower than applicant's due to its use of the December 31, 1976 wage rates. Since we adopt applicant's salaries and wages expenses based upon the current wage levels, we also adopt its estimate of payroll taxes.

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

Depreciation

Applicant determined test year 1977 depreciation expenses to be \$130,200, while the staff's estimate is \$103,900. Both applicant and the staff determined the depreciation expenses by using the latest depreciation rates approved by the Commission staff on March 17, 1977. The \$26,300 difference between them is due to differences in plant in service.

As for utility plant and ad valorem tax, we will rely on recorded data with an adjustment for the under-utilized plant discussed under rate base. Based on recorded plant for 1977, we will adopt \$117,400 as reasonable for depreciation expense.

Income Taxes

Applicant and the staff used the same principles in calculating income taxes. Their determination of income taxes differs because of differences in revenue and expense levels. The staff originally adopted applicant's determination of interest expense which was based upon applicant's rate base and debt costs. Since applicant's rate base and debt costs were higher than that proposed by the staff, the staff's interest expense was overstated. At the hearings the staff made a \$16,800 adjustment to its interest expense, reducing it to \$79,200. We will use an interest expense based on our adopted rate base.

The procedures for determining tax depreciation (straight-line for federal taxes, and liberalized on a flow through basis for state taxes) are the same as those used for other rate applications of Citizens considered by the Commission since Decision No. 83610 dated October 16, 1974 in Application No. 54323 (Washington Water and Light Company). During these proceedings the Commission, by order of the Supreme Court of the State of California in S.F. No. 23215, S.F. No. 23237, and S.F. No. 23257, was rehearing the ratemaking treatment of federal income tax depreciation in Applications Nos. 51774 (The Pacific Telephone and Telegraph Company) and 51904 (General Telephone Company of California). In this proceeding the staff recommended that pending the outcome of those hearings, applicant be ordered to maintain its records to implement customer refunds in the event this Commission should prescribe a method other than that now followed.

The Commission has now issued its decision in the Pacific and General telephone matters (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 base 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(1) - (1) (h) (6) and is normalization accounting." (Mimeo. page 48.)

No adjustment has been made in the deferred tax reserve or in the required revenues in this proceeding because the amount involved would be small and the time involved in making such adjustments would delay this matter further.

Applicant is placed on notice that the treatment of tax depreciation and investment tax credit found reasonable in Decision No. 87838 will be applied in all future rate proceedings for all subsidiaries and affiliates of Citizens.

Rate Base

The following is a summary of applicant's and the staff's estimates of average rate base for the test year 1977 and our adopted rate base.

	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
	(Dollars in Thousands)		
Utility Plant in Service	\$5,817.0	\$4,908.5	\$ 5,721.6
Reserve for Depreciation	<u>1,020.4</u>	<u>871.0</u>	<u>1,020.0</u>
Net Plant in Service	4,796.6	4,037.5	4,701.6
Adjustment to Net Plant	-	-	(23.9)
Common Plant	21.6	18.4	21.6
Materials & Supplies	24.5	15.7	24.5
Working Cash	20.4	-	20.4
Minimum Bank Balances	6.8	-	-
Non-Interest-Bearing CWIP	8.4	2.0	-
Advances for Construction	(1,252.8)	(981.5)	(1,257.7)
Contributions in Aid of Construction	(561.6)	(296.5)	(566.2)
Reserve for Deferred Income Taxes	<u>(116.8)</u>	<u>(100.0)</u>	<u>(126.4)</u>
Average Rate Base	2,947.1	2,695.6	2,793.9

(Red Figure)

The difference between applicant and the staff in test year 1977 plant in service results from the staff having made adjustments consisting of \$198,240 recommended by the Finance Division; other plant adjustments made by the staff in the amount of \$567,360; differences between the staff and applicant in test year 1977 plant additions; and the staff not using rollback of nonrevenue producing plant additions.

The Finance Division conducted an audit of applicant for the period January 1, 1974 through December 31, 1976. In its report, as revised during the hearing, the Finance Division noted 10 audit exceptions as follows:

Exception 1

The staff contends that the cost of the Brown and Caldwell Water System Improvement Plan should be recorded in Account No. 142 (Preliminary Survey and Investigation Charges) and charged to the appropriate utility plant in service accounts through the applicable completed work orders by applying the percentage of the budgeted cost necessary to fully implement all of the recommendations of the plan, to the total cost (\$35,312) of the plan. As any reduction in rate base resulting from reversing any portion of the Brown and Caldwell study to Account No. 142 should be offset by an equivalent increase in working cash allowance in rate base, we will not adopt the staff's recommendation.

Exception 2

The staff contends on the basis of a physical inventory, certain utility plant assets with a total recorded cost of \$29,733 are no longer in service and should have been retired. The record shows that items with an original cost of \$14,816 are currently in service and should not be retired. Items with an original cost of \$1,621 were retired in 1976. Applicant does not dispute the other items totaling \$13,296 which we shall treat as being retired in our determination of utility plant in service and the reserve for depreciation.

Exception 3

The staff contends that parts of three land sites which applicant has included in Account No. 306 (Land and Land Rights) are not wholly used in utility operations. The record shows that these sites should remain in plant in service in their entirety.

Exception 4

The staff contends that applicant erroneously capitalized the cost of two test wells at Well Site No. 16 which were never developed into productive use and recommends that applicant reduce Account No. 315 (Wells) and Account No. 250 (Accumulated Depreciation) by \$20,300 and \$3,570, respectively, to exclude their cost from plant in service with the net of \$16,730 charged to Account No. 414 (Miscellaneous Debits to Retained Earnings). Applicant states that these were not "test wells", but were exploratory holes drilled as part of a geological study made for applicant to determine the location of the best quality of water. The nature of the exploration and tests required the filling of the exploratory holes as individual aquifer testing was completed; it was not possible, nor was it applicant's purpose, to develop these into production wells. No adjustment will be made to plant for them.

Exception 5

The staff recommends that applicant write down a recorded cost of \$18,228 for a 40-horsepower booster pump purchased in 1963, to \$3,511 the cost of another 40-horsepower pump purchased in 1963. The Finance Division witness now states that his proposed adjustment should not be made.

Exception 6

The staff found that a recommended adjustment to plant made in connection with applicant's general rate case, Application No. 52160, to eliminate \$6,641 in overheads capitalized in 1969 had not been made by applicant. It notes that although Decision No. 83610 issued in that case did not order this adjustment, it was made in the adopted rate base. This adjustment will be made.

Exception 7

The staff excluded total AFUDC taken for the period 1970 through 1975 pending applicant's adjustment of the AFUDC amounts capitalized to reflect a 7.5 percent AFUDC rate and elimination of AFUDC compounded. The staff's adjustment is said to be based upon Decision No. 81821 dated August 28, 1973 in Application No. 53178 of Citizens-California affirmed as applicable on rehearing in Decision No. 83855 of December 1974. Applicant's position is that no retroactive effect should be given to Decision No. 81821. It also states that the net effect on rate base of adjusting to a 7.5 percent AFUDC rate for the period of 1970 through 1975 is a reduction of \$6,000. It is reasonable to adjust the AFUDC to the 7.5 percent rate from the date of Decision No. 81821 rather than eliminate the full amount. However, since the amounts involved prior to the date of Decision No. 81821 are relatively small, and the specific amount from the date of that decision is not shown in the record, we will make an adjustment of \$6,000 in our determination for the purpose of this case. Decisions Nos. 81821 and 83855 did not address the matter of compounding AFUDC. Applicant points out that most of its jobs are of short duration, so that compounding AFUDC is of minimal effect. We will not order applicant to eliminate compounding of AFUDC.

Exception 8

The staff recommends that applicant dispose of the \$2,377 credit balance in Account No. 100.5 (Utility Plant Acquisition Adjustment) resulting from applicant's May 1968 acquisition of the Linden Acres subdivision facilities from the Yolo County Water District by transferring \$1,927 to Account No. 265 (Contributions in Aid of Construction), and \$450 to Account No. 110 (Other Physical Property). We shall not adopt the staff's recommended adjustment, but will direct applicant to submit a proposal for Commission approval to depreciate, amortize, or otherwise dispose of the acquisition adjustment as provided for in paragraph 100.5.C of the Uniform System of Accounts.

Exception 9

The staff recommends that applicant transfer from its inventory of materials and supplies to Account No. 110, Other Physical Property, items of steel piping, fittings, and related apparatus with a total recorded cost of \$4,309 which it contends have been discontinued from further use in applicant's construction program since applicant has adopted the use of asbestos-cement piping. Applicant did not contest this recommendation which will be adopted.

Exception 10

The staff recommends that applicant retire the total cost of a diatomaceous earth filtering plant located at the southeast well cluster on the basis that during the period 1974 through 1976 it has not been used in utility operations. Applicant concedes that the diatomaceous earth filter unit itself has been found to be uneconomical to operate, but points out that other portions of the treatment plant are used and necessary in the operations of the system, and that only the filter itself should be retired. We agree with applicant and shall adjust the plant accounts to reflect the retirement of the filter by crediting Account No. 332 (Water Treatment Equipment) and debiting Account No. 250 (Reserve for Depreciation of Utility Plant) \$21,951.

The staff estimated \$96,200 for 1977 construction which it feels reflects the limitation on plant expansion by the Fazio Bill^{1/}. Applicant estimated 1977 test year additions to be \$222,317. As of November 30, 1977, applicant asserted to have actually expended, or committed to expend by issued purchase orders, \$258,994. However, we note from Washington Water and Light Company's 1977 Annual Report to the Commission that plant additions in 1977 were recorded at \$146,647 and that construction work in progress increased during 1977 by \$15,676 for a total construction expenditure of \$162,323. It is clear that, due to the effects of the Fazio Bill, staff underestimated and applicant overestimated test year 1977 plant additions. The Fazio Bill prohibits applicant from engaging in any construction work, except where necessary to extend service to customers, to maintain the existing water system, to meet an emergency, or to protect the safety and health of the public or any portion thereof. Main extensions to serve customers, main replacements, pump replacements, vehicle replacements, and the like needed to maintain the system must be made and come within exceptions to the Fazio Bill. The Fazio Bill was in effect for six months of 1976 in which year applicant's recorded additions were \$542,300, but the fact that only \$162,323 was expended for construction in 1977 is indicative of the affect of the Fazio Bill on normal operations.

The difference between the depreciation reserves estimated by applicant and the staff is due to their different estimates of plant additions and the staff's adoption of the accounting adjustments recommended by the Finance Division.

^{1/} Legislation extending the Fazio Bill (AB 3584) to January 1, 1980 is pending.

In addition to the previously discussed adjustment to utility plant for the diatomaceous earth filter, the staff revised its showing during the hearing to exclude from rate base 50 percent of the Southport Treatment Plant, 50 percent of a 16-inch main from Jefferson Boulevard to Linden Acres, and 40 percent of the Northeast Treatment Plant.

The Southport Treatment Plant was constructed during the development of the area known as Fredericks-Southport. The plant was constructed to serve the 361-acre area of Fredericks-Southport initially planned to include 540 multi-family units and 492 single-family units and a recreation center. To date over 700 customers are being served by the plant. Three developers advanced funds to construct a 16-inch main in Linden Road from the Southport Plant to an area of their proposed developments of some 300 units. These developments have not proceeded as scheduled. However, this main enables applicant to serve treated water to two subdivisions, Linden Acres and River Country having a total of 148 homes. On this basis, the staff proposes what it terms a saturation adjustment for the facilities south of the Barge Canal.

Applicant maintains that the Southport Treatment Plant was designed as set forth in its application for a certificate of public convenience and necessity to serve Fredericks-Southport granted by Decision No. 80460 in Application No. 53333. It states that the plant is designed to

furnish the 2,500-gallon-per-minute fire flow demands of the local fire protection district, and that, even though Fredericks-Southport has not yet developed to the extent anticipated, the plant and 16-inch main enable applicant to serve treated water not only to the Fredericks-Southport completed homes, but to a school and, through the 16-inch main, other areas. It also contends that the plant is of minimum size for economic construction and operation and that the cost of the plant was advanced or contributed pursuant to the main extension rule and an order of this Commission. Further, applicant notes that the 16-inch main was constructed with advances and enables it to serve treated water to Linden Acres and River Country at minimum cost. It states that assuming only Linden Acres and River Country were to be served, the main size needed to serve the required fire flow and domestic service would have been a 12-inch main; and that the difference in cost of a 12-inch main and the 16-inch main is \$12,900.

Because of the underutilization of the plant we concur in the staff's saturation adjustment and we will adopt the staff's recommended 50 percent adjustment for the Southport Treatment Plant and shall exclude \$12,900 of the cost of the 16-inch main.

The staff noted that during 1976, which it took to be indicative of normal conditions, the production of the wells which were treated by the Northeast Treatment Plant operated at about 74 percent of capacity, which is considered satisfactory; that the Northeast Treatment Plant renovation project made use of existing facilities to a large extent; and that the staff concurs with a design approach that utilizes existing facilities to the maximum extent feasible, and normally would not recommend an adjustment for over capacity which results in such a case. However, the staff revised its thinking on the basis that applicant has no plan, either general or specific, showing what will be done to utilize the capacity now available at the Northeast Plant. It stated that such a plan might include such things as the elimination of bottlenecks in the distribution system which may impede

flow from the plant and thereby limit production, the addition of storage facilities for treated water from the plant to be used during peak demand periods, and the addition of another production well. The staff then made a judgment adjustment to eliminate 40 percent of the Northeast Plant based on the testimony and Exhibit 12 of Mr. Karoly of the Department of Health to the effect that the Northeast Plant was not now being fully utilized.

Applicant points out that the Northeast Plant, which is its primary source of supply north of the Barge Canal, is in fact operated at 100 percent of capacity during peak demand periods, as well as at other times since it is preferentially operated to provide the maximum quantity of treated water. During the summer months, the facility operates at or near peak approximately 18 hours a day, every day. Applicant maintains that Mr. Karoly's chart showing the current utilization of the plant reflects the effects of conservation. It prepared Exhibit 68 on the same basis as Mr. Karoly's Exhibit 12, but included data for the 1975 and 1976 preconconservation period, as well as the conservation period covered by Mr. Karoly. This chart shows that as conservation efforts increased the percent load factor of the plant has somewhat diminished. However, it is still operating at a good average load factor. The monthly load factor prior to conservation ranged from 48.87 percent to 86.70 percent for an annual average of 65.85 percent. In 1976 when concentrated conservation efforts started, the monthly load factor ranged from 36.16 percent to 75.29 percent for an average annual load factor of 57.51 percent. Continuing into the conservation period, the average annual load factor was 43.15 percent. Witness Hoag of Brown and Caldwell testified that the average load factor of the Northeast Plant is significantly higher than would be expected resulting from the preferential operation of this facility during periods of off-peak demand. His opinion is that water demand variations in applicant's system are typical of those in California communities of arid climate and that its production plant load factors

are also typical of those operating under similar conditions. This witness considered the possibility of improving the load factor of this plant by the addition of a feeder main to improve conveyance capacity of the distribution system, and found that the addition of a 12-inch main from the Northeast Plant to the vicinity of 5th and "E" Streets, connecting to several 6-inch and 8-inch mains along its route would improve the plant load factor by approximately 20 percent of its current load factor at a cost of \$120,000. Since the Northeast Plant is already operated preferentially rather than proportionally to system demand, additional storage and booster pumps would not effect much improvement in load factor. However, an 800,000-gallon storage tank and 3-million-gallon per day booster pump station with a cost of \$400,000 would effect some improvement during low demand periods which he estimated at 15 percent of its current average annual load factor. Since the capacity of the wells discharging to the Northeast Plant is approximately equal to the filter capacity, little improvement would be provided by a new well. Plant reliability would be improved and perhaps some improvement of 10 percent in load factor could be expected with the addition of a new well with a cost of \$90,000.

This plant operated in the past at very high load factors and obviously represents a prudent investment by applicant to provide treated water to its customers. Because that load factor, while still good, has diminished during this conservation period, is no reason to make the adjustment proposed by the staff. There is no assurance that the lower demand due to conservation will continue in the future. It would not be wise, prudent, or cost effective for applicant to undertake the expensive additions that would be required to effect minor improvement in the current load factor of the plant which will occur anyway without those improvements because of increased demand. Finally, we note that it is questionable that any of the expensive possible improvements could be, or could have been, undertaken as long as the Fazio Bill is in effect. We shall not adopt the staff's recommended adjustment for the Northeast Plant.

Due to enactment of the Fazio Bill, the 1977 recorded data is more useful than normalized data in considering test year operations. The same applies to rate base items. We will use simple beginning- and end-of-year averages from Washington Water and Light Company's 1977 Annual Report to the Commission for utility plant in service, reserve for depreciation, advances for construction, contributions in aid of construction and reserve for deferred income taxes; and we will make the adjustments noted above.

Other Rate Base Items

We will adopt applicant's estimates for other rate base items with the exceptions of minimum bank balances and non-interest bearing construction work in progress. We include construction work in progress in the 1977 recorded plant. Minimum bank balances are discussed below.

Minimum Bank Balance

Staff did not include additional amounts for minimum bank balances in conformity with Decision No. 83610 dated October 16, 1974 in Application No. 54323 (Washington Water and Light Company). Applicant included \$16,800 for minimum bank balances. This represents a portion of the amount of minimum bank balances Citizens-Delaware is required to keep with banks in order to acquire short-term financing at the prime rate.

Applicant argues that the effect of maintaining such compensatory bank balances is that the borrower pays interest on the total amount of a particular loan, but actually has the use of a lesser amount, the balance being maintained in its account with the bank. According to applicant their compensatory bank balances carry a legitimate cost, and since they are not included in the working cash computation, nor in the cost of capital, it is necessary to make allowance for them in rate base.

Applicant does not itself make any short-term borrowing. The balances are not directly related to the day-to-day activities of the applicant. The same disallowance was applied in Decision No. 76996 dated March 24, 1970 in Application No. 48905 (Guerneville District) and Decision No. 79919 dated April 4, 1972 in Application No. 54323 (Washington Water and Light Company). The Commission's prior position will be followed and no minimum bank balance will be included.

Summary of Earnings

	<u>Applicant</u>		<u>Staff</u>		<u>Adopted Proposed Rates</u>
	<u>Pres. Rates</u>	<u>Prop. Rates</u>	<u>Pres. Rates</u>	<u>Prop. Rates</u>	
	(Dollars in Thousands)				
Operating Revenues	\$ 716,100	\$1,259,700	\$728,900	\$1,282,100	\$1,041,600
<u>Operating Expenses</u>					
Operation & Maintenance	385,300	385,800	384,400	384,800	385,300
Administrative & General	144,100	144,100	73,300	73,300	97,800
Taxes Other Than Income	148,200	152,200	82,800	86,000	79,800
Depreciation	130,200	130,200	103,900	103,900	117,400
Income Taxes	-	168,600	(24,000)	265,500	115,400
Total Expenses	807,800	980,900	620,400	913,500	795,700
Net Operating Revenue	(91,700)	278,800	108,500	368,600	245,900
Rate Base	2,947,100	2,947,100	2,695,600	2,695,600	2,793,900
Rate of Return	(3.11%)	9.45%	4.03%	13.67%	8.8%

(Red Figure)

Meter Conversion

The staff recommends that applicant complete its metering program for business and industrial customers and initiate a program for converting residential flat-rate service to metered service. At the request of the administrative law judge, applicant submitted its estimate of the additional operating and capital costs associated with completely metering the system. The initial cost of meters and installation based upon 1977 estimated cost of \$208 average residential unit cost is \$1,049,400 plus an estimated cost of \$84,200 for converting the remaining unmetered business and industrial customers, or a total cost of \$1,133,600. The related annual capital and operating costs would be \$270,800. The applicant is prohibited from proceeding with conversion to meters by the proscriptions of the Fazio Bill.^{1/}

^{1/} Legislation extending the Fazio Bill (AB 3584) to January 1, 1980 is pending.

Service

From the evidence adduced during the nine days of hearing in this proceeding we must conclude that water service to the customers of Washington Water and Light has been and still is very unsatisfactory. Eleven public witnesses, including a legislator, a pastor, the President of the Board of Directors of East Yolo Community Services District and a Senior Sanitary Engineer from the State Department of Health testified to the poor quality of water served, to the utility's poor public relations and to its maintenance and business practices.

Of the eleven who testified, six were single-family residential customers. They complained of foul tasting, smelling and dirty water; of low pressure in some areas, of particles and flakes in the water that clogged water softeners; of having to replace hot water heaters prematurely because of the corrosive nature of the water; of corrosion and deterioration of toilet and bathroom fixtures; of discoloration of tiles, porcelain and household fixtures caused by the excess manganese in the water; of not being able to contact the utility by telephone after normal working hours; of utility personnel being discourteous and bullying; and especially of having to haul or buy bottled water for cooking and drinking purposes.

Pastor Lawrence T. Wyneken of the Community Church of East Yolo testified that the manner, tone and deportment of the manager of this utility in dealing with customers is utterly appalling. He is rude, bullying and demeaning. Pastor Lawrence cited an incident where the utility closed a line which served the fire protection hose within the church but continued to bill the church. Service was restored after much complaining but at twice the original rate without explanation or notice. In addition to repeating many of the prior customers' service complaints, he stated that his family was plagued with dysentery before he secured water for cooking and drinking from another source.

Mr. Bennett T. Karoly, representing the Department of Health in the proceedings, testified that the main problem with applicant's system is the poor quality of water received by customers. The water is aesthetically and chemically unacceptable to the vast majority of consumers. The department has notified applicant in writing that the quality of domestic water fails to comply with the standards established by the department. However, applicant has not taken reasonable steps available to reduce objectionable odors, taste, color and turbidity in its water.

Water quality tests supervised by Mr. Karoly indicate that only 40% of the water pumped from applicant's wells is treated in such a fashion as to remove manganese. However, this treated water is mixed with untreated water so that it cannot be said that 40% of applicant's customers receive treated water. The composite average of all the sampling points indicate that the manganese level in applicant's system, over the years tested, varied from at least .1 to .3 milligrams per liter of water. The standard promulgated by state and federal drinking water standards is .05 milligrams per liter. This means that at least 60% of the water produced by applicant contains from two to six times the maximum governmental set standard. (Exhibits 7, 8, 9, 11 and 12.)

Mr. Karoly stated that the department has received many complaints from consumers. In 1972, and again in 1975, the department conducted a consumer survey to find out how the consumers felt about the water and also to compare the two periods of time to see if there was any change. These surveys (Exhibits 5 and 6) were conducted in the same manner, to wit, by publishing a questionnaire form in the newspapers serving applicant's area. In 1972 there were 5,768 service connections and the department received 1,003 valid, completed forms. In the 1975 survey there were a total of 5,918 service connections and the department received 1,443 responses.

The manner of conducting the survey made it necessary for any person wishing to respond to take the trouble to cut the form out of the newspaper, complete it and mail it into the department. In Mr. Karoly's opinion, these surveys demonstrate extensive consumer dissatisfaction. In the 1972 survey, over 600 people took the time to write a personalized note on the form or a letter elaborating on their dissatisfaction with the water.

In Mr. Karoly's opinion, applicant has not taken reasonable steps available to it to reduce objectionable odors, taste, color and turbidity in the water it delivers to its customers and that applicant violates consumer acceptance standards as to each of these characteristics. As an example of the objectionable odor, Mr. Karoly testified that there was a "very strong, pronounced, hydrogen sulfide odor" upon running the hot water tap in the men's room of the library where the hearings were being held.

Among other things, the surveys show that the number of customers purchasing bottled water has increased and those supporting formation of a local district to supply water instead of the existing company have also increased considerably since 1972.

Ms. Angela Davis, owner of 32 apartments in the service area, stated that because West Sacramento is known for its terrible water, she has difficulty renting her apartments. The water causes staining, has an odor and is too hard. She has added water softeners and attempted to drill her own well in an effort to remedy the problem of poor quality water. She further testified that she has been unable to get an explanation on her last billing, even through the mail. "Anytime you question Washington Water and Light Company about anything they threaten to take your water and cut it off." She complained that applicant, without prior notification, had come onto her property, cut the sprinkling system and the pipe leading to the building, dug up the lawn and cut up the asphalt road. She was not successful in developing potable water on her property and when she requested to

have the apartments put back on the company line, she was told she would be required to pay a large deposit as a new customer. She was also forced to sign an agreement with applicant under threat that her water would be cut off.

Mr. Carl Landerman, Chairman of the Board of Directors of the East Yolo Community Services District, testified he has lived in the community of East Yolo for the past 34 years. He has heard and voiced voluminous objections to the quality of water being offered to the residents. During the last three years an organized effort was launched to improve the deplorable situation. After lengthy and due considerations, constructive effort resulted in the establishing of the East Yolo Community Services District, comprising the areas of Broderick, Bryte, West Sacramento, Arlington Oaks, Touchstone, River Country and Linden Acres. The district was established by a three to one majority vote of the people in June of 1976 and became functional on September 2, 1976.

The district has taken the position, based on customer demands, the Department of Health surveys, previous engineering studies and so forth, that well water, as furnished by Citizens Utilities Company, Washington Water and Light Company, is unacceptable to the community. The projected costs for improvement are unacceptable since the area is comprised of over 30% of residents whose income is below governmental established poverty level. The district does not want the Commission to order any improvements in applicant's system as being incompatible with the preferred source of supply.

The community has mandated, by a three to one majority, that the district acquire the water system and operate it. The district opposes, at this time, any rate increase, as there have been three rate increase applications in the past few years without any appreciable upgrade in quality.

The East Yolo Community Services District has filed Application No. 57906 requesting the Commission to fix just compensation for the acquisition of the property of Washington Water and Light Company.

Victor H. Fazio, Assemblyman from the Fourth District, testified that the water supplied to the residents of Broderick, Bryte, and West Sacramento has been a subject of concern to the citizens of these communities. He testified that Washington Water and Light Company is a subsidiary of Citizens Utilities Company of Stamford, Connecticut. This Connecticut-based firm has made a practice of buying out small run-down water systems and operating them with a minimum of investment, but maximum profits, while showing a complete lack of concern for the consumer who has no choice but to obtain water from the purveyor serving his area. Many consumers have complained to him about low water pressure, nonresponsiveness of the utility to customer complaints and concerns, foul tasting and dirty water that damages water pipes, water heaters and other appliances, water that discolors swimming pools and corrodes fixtures, and the high cost of water made even more costly by the necessary installation of water softeners and the purchase of bottled drinking water in many cases. Comparison of consumer surveys conducted by the Department of Health in 1972 and 1975 shows a continued dissatisfaction with the water and an increase in the number of residents who now appear to favor the formation of a local water district to replace Washington.

Assemblyman Fazio stated that he sponsored legislation to prevent Washington from further expansion for two years (Fazio Bill) while the people of East Yolo took the necessary legal steps to acquire Washington's holdings. Those legal proceedings are underway and the district (East Yolo Community Services District) is looking at a probable June 1978 bond election. Assemblyman Fazio further stated "that as a legislator representing the area, he shares the residents' dismay at being confronted with the possibility of another rate increase,

without even a promise that the quality of water they consume will improve. Until such time as these residents are able to receive such an assurance from either Washington Water and Light or some other provider, I join them in opposing another increase in rates."

Based on the foregoing testimony, which the utility did not challenge or attempt to refute, it is quite clear that the utility has not provided satisfactory service to its customers.

Upon the evidence that the water supplied by the applicant does not constitute a health hazard and in consideration that East Yolo Communities Services District has requested the Commission not to order the applicant to make improvements because of the district's intent to acquire applicant's system and because the district, in Application No. 57906, is now requesting the Commission to fix just compensation for acquisition of applicant's system, and because of pending legislation to extend the Fazio Bill to January 1, 1980, we will not order any capital improvements to the system at this time.

In view of the service problems developed in the record, we are limiting Citizen's to the lower end of the rate of return recommended by our Finance Division.

Motions

At the commencement of the hearings, counsel for Yolo County and Washington Unified School District made a motion to dismiss the application for (among other things) failure to include an environmental data statement, and a motion for an environmental review under CPUC Rule 17.1. The motions were denied by the administrative law judge. On November 4, 1977, East Yolo Community Services District filed a written motion under CPUC Rule 17.1(e) for a determination that the application

involves a project within the purview of the California Environmental Quality Act (CEQA) and is subject to its requirements. On November 8, 1977 Yolo County and Washington Unified School District filed a similar motion.

In Decision No. 81237, which promulgated Commission Rule 17.1, and in Decision No. 81484 on rehearing of Decision No. 81237, the Commission determined that ratemaking proceedings are not "projects" within the purview of the Environmental Impact Report requirements of CEQA. We will deny the motions.

The Community Services District, School District, and the county of Yolo also filed petitions for a proposed report to be issued by the presiding officer pursuant to Rule 78. We find no need for the issuance of a proposed report. The motions will be denied.

Findings

1. Applicant is in need of additional revenue, but the proposed rates set forth in the application are excessive.

2. The adopted estimates previously discussed of operating revenues, operating expenses, the rate base, and the rate of return for the test year 1977 are reasonable.

3. A rate of return of 8.80 percent on the adopted rate base of \$2,793,900 is reasonable. Such rate of return will provide a return on equity of approximately 9.74 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.

5. Gross revenue requirements have been reduced herein by \$39,800 to pass on to the consumer the estimated benefits of Article XIII-A of the California Constitution (Proposition 13).

6. The authorized increase in rates is expected to provide annual increased revenues of \$312,700.

7. Applicant is not providing an adequate level of water service. Due to the characteristics of the ground water in applicant's service area, the water provided by applicant does not meet the consumer acceptance standards of the Department of Health in portions of its service area. The Department of Health has not ordered applicant to improve the quality of its water and its water does not constitute a health hazard.

8. The East Yolo Community Services District has applied to have the Commission fix just compensation for the acquisition of applicant's water system and is opposed to applicant being ordered to make improvements to the groundwater system as being incompatible with the district's preferred source of supply.

9. Applicant was prohibited by the Fazio Bill from undertaking the major improvements that would be required to improve the quality of water until July 1, 1978.

10. Applicant should not be directed by this Commission at this time to undertake a plan of system improvements, and the step rates proposed by applicant in conjunction with the implementation of the Brown and Caldwell plan described in these proceedings are therefore not necessary.

11. All cost accounting procedures of administrative and office costs and expenses that are allocated by Citizens-Delaware to its California subsidiaries, including applicant, 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.

Conclusion

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

It IS ORDERED that:

1. Washington Water and Light Company is authorized to file the revised schedules attached to this order as Appendix A, and concurrently to cancel its present schedules for such service. The filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised schedules shall apply only to the service rendered on and after the effective date thereof.

2. The motions of East Yolo Community Services District, the County of Yolo, and the Washington Unified School District for an environmental review and for a proposed presiding officer's report are denied.

3. All cost accounting procedures of administrative and office costs and expenses that are allocated by Citizens-Delaware to its California subsidiaries, including applicant, 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.

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

Dated at San Francisco, California, this 6th day of SEPTEMBER, 1978.

Robert Bateman
President

William L. Ferguson
Charles D. Howell
Commissioners

I dissent. after
27 months this Company
should have had
a higher rate of return.

William L. Ferguson

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORYBroderick, Bryte, West Sacramento, Arlington Oaks, and Linden Acres,
and vicinity, Yolo County.RATES

Quantity Rates:

	Per Meter Per Month	
First 500 cu.ft. per 100 cu.ft.	\$ 0.27	I
Over 500 cu.ft., per 100 cu.ft.31	

Service Charges:

For 5/8 x 3/4-inch meter	3.50	
For 3/4-inch meter	3.85	
For 1-inch meter	5.25	
For 1-1/2-inch meter	7.00	
For 2-inch meter	9.45	
For 3-inch meter	17.50	
For 4-inch meter	23.80	
For 6-inch meter	39.55	
For 8-inch meter	58.80	I

The Service Charge is applicable to all metered service.
It is a readiness-to-serve charge to which is added the
charge, computed at the Quantity Rates, for water used
during the month.

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Schedule No. L-2

GENERAL FLAT RATE SERVICEAPPLICABILITY

Applicable to general flat rate water service.

TERRITORYBroderick, Bryte, West Sacramento, Arlington Oaks, and Linden Acres,
and vicinity, Yolo County.RATES

	Per Service Connection Per Month
1. For a single-family residential unit, church, firehouse, or public landscaped strip on a single premises served through a 3/4-inch service connection	\$ 8.60
a. For each additional single-family residential unit on the same premises and served through the same service connection	4.65
b. In addition, when a 1-inch service connection is provided in lieu of a 3/4-inch service connection	4.75
2. For each apartment house, motel, auto court and trailer court, including only the office, manager's living quarters, central bath, utility room, and irrigation of adjacent lawn and garden area	12.15
a. For each additional apartment motel unit, including use of water for kitchen, bath, and irrigation of adjacent lawn and garden area	4.35

(Continued)

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Schedule No. L-2

GENERAL FLAT RATE SERVICERATES - (Continued)

Per Service Connection
Per Month

3. For each business service, school, or industrial service, other than motels or trailer courts:

For 3/4-inch service connection	\$ 10.70
For 1-inch service connection	15.25
For 1½-inch service connection	22.90
For 2-inch service connection	36.70
For 3-inch service connection	55.25
For 4-inch service connection	91.80
For 6-inch service connection	168.00
For 8-inch service connection	290.00

- a. For each additional business unit on the same premises and served through the same service connection 6.05

- b. For each single-family residential unit on the same premises and served through the same service connection 4.65

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis.

2. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

APPENDIX A
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Schedule No. H-2 I

SPECIAL FLAT RATE INDUSTRIAL SERVICE

APPLICABILITY

Applicable to special flat rate industrial water service.

TERRITORY

Sacramento-Yolo Port District and related industrial areas,
Yolo County.

RATES

		Per Service Connection
		Per Month
For each 3/4-inch service connection	\$	15.50
For 1-inch service connection		24.30
For 1 1/2-inch service connection		36.55
For 2-inch service connection		52.00
For 3-inch service connection		73.00
For 4-inch service connection		133.00
For 6-inch service connection		299.00
For 8-inch service connection		542.00
For 10-inch service connection		841.00
For 12-inch service connection		1,210.00

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis.

2. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

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Schedule No. L-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

Broderick, Bryte, and West Sacramento, and vicinity, Yolo County, the Sacramento-Yolo Port District and related industrial areas.

RATES

	<u>Per Month</u>	
For each 2-inch service connection	\$ 6.15	I
For each 3-inch service connection	9.15	I
For each 4-inch service connection	12.30	I
For each 6-inch service connection	18.30	I
For each 8-inch service connection	24.45	I
For each 10-inch service connection	30.60	I
For each 12-inch service connection	36.70	I

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be two inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

APPENDIX A
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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized or incorporated fire districts or other political subdivisions.

TERRITORY

Broderick, Bryte, West Sacramento, Arlington Oaks, and Linden Acres, and vicinity, Yolo County.

RATE

Per Month

For each fire hydrant owned by public authority	\$ 3.10
For each fire hydrant owned by the utility	4.10

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. The cost of installation and maintenance of hydrants will be borne by the owner.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. 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.

General Rate Application of Washington Water and Light Company

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

The majority decision continues the same rough, unfair treatment of Citizens' water utilities to which I have previously objected.^{1/}

This decision took the Commission two years and three months to produce. But the decision is not the better for the delay: it denies the applicant an adequate rate of return. The applicant's requested 12.15 per cent rate of return is ignored, the 10 per cent rate of return we have allowed in other recent water utility decisions is ignored, even the staff's inadequate recommendation of 9.1 per cent is rejected. The Commission majority limits the rate of return to a punitive 8.8 per cent.

Additionally, the Commission adopts a meat-ax approach "adjusting" downward those operating expenses that the Commission recognizes to exist. Among these "adjustments", the disallowance of adequate "Legal and Regulatory Expenses" is particularly offensive. In reducing this allowance from the \$44,782.00 expended, to only \$9,500.00, the Commission continues its sorry attempt to systematically undermine this company's will to represent its case adequately before

^{1/} See Dissenting Opinions in D.87609. Jackson Water Works, July 19, 1977, D.84903 and D.85659 re: Niles-Decoto District, September 16, 1975 and April 13, 1976, respectively.

governmental authorities and to defend itself. I find this abhorrent. It strikes at the heart of the fundamental fairness which must underlie administrative proceedings if regulation is to be respected.

Just what is the ostensible reason for subjecting Washington Water to such treatment? The majority of this Commission - contrary to the opinion of the Administrative Law Judge,^{2/} who heard the case - asserts that service is deficient. However, more likely, the majority's action is no more than a covert means of suppressing the earnings to which this utility is rightfully entitled because of the pendency of condemnation proceedings which have been brought against it. We witnessed the Commission majority taking the same liberties in the case of the Niles-Decoto District. (A.54960, D.84903, D.85659).

2/ The Administrative Law Judge found:

"7. Applicant is providing an adequate level of water service. Due to the characteristics of the ground water in applicant's service area, the water provided by applicant does not not meet all of the aesthetic standards of the Department of Health at all times in portions of its service area. The Department of Health has not ordered applicant to improve the aesthetic quality of its water and its water does not constitute a health hazard.

"8. Applicant is providing the best quality of water that can be provided at the present rates and the increased rates. Any further improvement in the quality of water would require extensive and expensive facilities which would necessitate higher rates, such as the step rates proposed by applicant in this proceeding."

ALJ's Finding No. 7 was rewritten to state the opposite; Finding No. 8 was removed.

Washington Water had a net plant in service of approximately \$1.2 million as of December 31, 1966. Citizens Utilities Company acquired the system in 1967. From 1966 through 1976, Citizens expended an additional \$4.1 million for construction. The so-called service problems stem from the nature of ground water used by the system -- for some 80 years -- which can be modified only by major treatment or other construction programs which would lead to substantial increases in rates. Since as far back as 1973, when Washington Water introduced the Brown and Caldwell "Water System Improvement Plan," the public has rejected these programs and attendant rates, and instead has elected to condemn. While the condemnation process was being considered and then undertaken, local advocates for it were able to have the "Fazio" Bill enacted which prohibits Washington Water from undertaking major construction.

It is unjust and unlawful for the government, on the one hand, to prohibit this utility from doing what is necessary to improve service, and on the other hand to penalize it for service. This utility has made extensive improvements to the system it acquired, and is delivering the best quality of water possible under the circumstances. It is willing to do all that the public wants to improve the quality - the aesthetics - of the water it delivers - but the public doesn't want it done. The utility is clearly entitled to a full and fair rate of return.

San Francisco, California
September 6, 1978


WILLIAM SYMONS, JR.
Commissioner