

ORIGINAL

Decision No. 67296

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SAN JOSE WATER WORKS, a corpo-)
ration, for an order authorizing)
it to increase rates charged for)
water service in San Jose,)
Campbell, Cupertino, Los Gatos,)
Monte Sereno, Saratoga and)
vicinity.)

Application No. 45787
Filed September 18, 1963

In the Matter of the Application)
of SAN JOSE WATER WORKS, a corpo-)
ration, for an order authorizing)
it to increase rates charged for)
water service in order to offset)
certain ground water extraction)
charges.)

Application No. 46594
Filed April 28, 1964

McCutchen, Doyle, Brown, Trautman & Enersen, by
Robert Minge Brown, for applicant.
Everett P. Rowe, for Water & Power Users Asso-
ciation, protestant.
Cyril M. Saroyan and Robert C. Moeck, for the
Commission staff.

O P I N I O N

Applicant San Jose Water Works seeks authority to increase its rates for water service.

Application No. 45787 was heard before Commissioner Mitchell and Examiner Catey at San Jose on January 8, 9, February 10, 11, 13 and 14, 1964, and at San Francisco on February 17, 1964. Copies of the application and notice of hearing had been served in accordance with this Commission's rules of procedure. The matter was submitted on March 23, 1964, the date of filing of concurrent briefs by applicant and the Commission staff.

At the hearings, testimony on behalf of applicant was presented by seven of its officers and employees. At the request of

protestant Water & Power Users Association, a Commission staff engineer and two supervisors were made available for questioning in regard to preliminary studies made by the staff engineer. In response to subpoenas issued at protestant's request, testimony was presented by a plumbing contractor and six officials and employees of the City of San Jose, the County of Santa Clara and two local water conservation districts. The Commission staff presentation was made by two accountants and two engineers.

Application No. 46594 was filed subsequent to submission of Application No. 45787. Inasmuch as the more recent filing is only for the purpose of offsetting additional taxes not considered in the earlier proceeding and does not require a hearing, the two matters are hereby consolidated for decision.

Service Area and Water System

Applicant's service area consists of some 112 square miles of territory in Santa Clara County, in and about San Jose, Los Gatos, Monte Sereno, Saratoga, Campbell, Cupertino and Santa Clara. The service area is relatively flat in the central portion but extends into the foothills to the northeast and the mountains to the southwest. The wide range of elevations of the area, from almost sea level to over 1,000 feet above sea level, requires the establishment of 27 pressure zones.

About one seventh of applicant's water supply is obtained by the diversion and storage of runoff from the Santa Cruz Mountains watershed. The balance of the supply is obtained from 148 wells drilled in various parts of the Santa Clara Valley. Applicant's mountain reservoirs have a combined storage capacity of over 2½ billion gallons. In addition, distribution storage reservoirs and tanks provide a combined capacity of over 160 million gallons.

Applicant's transmission and distribution system includes approximately 1,400 miles of mains, ranging in size up to 48 inches in diameter. Metered service is provided to about 110,000 customers, flat rates being limited almost exclusively to some 300 private and 6,000 public fire protection services.

Rates

Applicant's present rates for general metered service, irrigation service, fire protection service and service from a pipeline installed by a water conservation district were all established in 1954 in applicant's previous general rate increase proceeding. Rates were established for service from applicant's Almaden pipeline in 1955, from applicant's system in the town of Almaden in 1957, and from applicant's Sanborn Young system in 1959.

Applicant proposes to increase the rate for general metered service, to change that schedule from a minimum charge to a service charge form of rate, to increase the rate for irrigation service, and to eliminate the zone rates now applicable to the town of Almaden and the Sanborn Young system.

Following is a comparison of applicant's present general metered service rates, those requested in each application, and those authorized by this decision, all based upon service through a 5/8 by 3/4-inch meter:

TABLE I
Comparison of Rates

Item	Present	Requested		Authorized
		A.45787	A.46594	
Monthly Minimum Charge	\$ 1.70	\$ -	\$ -	\$ -
Monthly Service Charge	-	1.75	1.75	1.55
First 500 cu.ft., per 100 cu.ft.	*	0.22	0.26	0.24
Next 2,500 cu.ft., per 100 cu.ft.	0.24	0.22	0.26	0.24
Next 27,000 cu.ft., per 100 cu.ft.	0.165	0.22	0.26	0.24
Over 30,000 cu.ft., per 100 cu.ft.	0.145	0.17	0.21	0.21

* Included in Minimum Charge.

The present rates provide for a graduated scale of increased minimum charges for service through larger than a 5/8 by 3/4-inch meter. Similarly, the requested and authorized rates include higher service charges for larger meters.

Table 15-C of applicant's Exhibit No. 1¹ shows the effect of its requested rates on the monthly bills of typical residential customers. The following table summarizes that information and comparable data showing the effect of the rates requested in Application No. 46594 and those authorized herein:

TABLE II
Comparison of Charges

Item	Charge at Various Rates			
	Present	Requested		Author- ized
		<u>A.45787</u>	<u>A.46594</u>	
<u>Customer with</u>				
<u>Half Average Consumption</u>				
Minimum Month	\$ 1.70	\$ 2.41	\$ 2.53	\$ 2.27
Average Month	2.76	3.66	4.00	3.63
Maximum Month	4.58	5.49	6.17	5.63
<u>Customer with</u>				
<u>Average Consumption</u>				
Minimum Month	2.42	3.51	3.83	3.47
Average Month	4.50	5.42	6.08	5.55
Maximum Month	7.22	7.91	9.03	8.27
<u>Customer with</u>				
<u>Double Average Consumption</u>				
Minimum Month	4.10	5.05	5.65	5.15
Average Month	8.32	9.56	10.98	9.71
Maximum Month	13.15	15.61	18.13	15.68

Customer Complaints

The Commission staff's report, Exhibit No. 11, states that applicant is furnishing adequate service. In fact, a staff engineer testified that applicant is providing very good service. The validity of this conclusion is confirmed to some extent by the notable lack of protestants with service complaints in this

¹ Exhibits referred to herein are in Application No. 45787 unless otherwise stated.

proceeding. The single protestant alleged that it represents only 15 of applicant's customers.

Protestant's principal complaint relates to subsidence of the valley floor in applicant's service area. Protestant contends that applicant has depleted the underground reservoirs and that the resulting compaction of the soil has necessitated the importation of water from outside the valley at additional cost to the taxpayers of the county. Testimony of protestant's witnesses as to the magnitude of the overdraft of the underground basin and cost of importing water to reduce or eliminate that overdraft shows that it would have been unreasonable for applicant alone to have made the attendant capital expenditures for transmission facilities and incur the related increased expenses. Had it done so, its customers would have been burdened with the entire financial impact of a water importation project which would have benefited a considerable area not served by applicant. The plan worked out by the local water conservation districts for participation in the California Water Plan will provide a more equitable distribution of the cost of the imported water to all who benefit therefrom. Applicant plans to purchase imported water from the Santa Clara County Flood Control and Water Conservation District when it becomes available in about 1965 or 1966.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table III, from Exhibits Nos. 11 and 11-A presented by the Commission staff and from Exhibit No. 1 presented by applicant, with minor adjustments due to rounding, are the estimated results of operation for the year 1964 under present water rates and those

proposed by applicant. For comparison, Table IV shows the results of operation adopted herein under present rates, under applicant's proposed rates and under the rates which would have been authorized herein prior to the establishment of pump taxes to be levied after June 30, 1964, as discussed in more detail in subsequent paragraphs. The effect of the pump taxes, as it relates to revenue requirements, is discussed separately herein.

TABLE III

RESULTS OF OPERATIONS
(Excluding Effect of Pump Taxes
Year 1964 Estimated)

<u>Item</u>	<u>Present Rates</u>		<u>Proposed Rates</u> [#]	
	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>
	(Thousands of Dollars)			
Operating Revenues	\$ 7,890	\$ 7,697	\$ 9,549	\$ 9,397
<u>Operating Expenses</u>				
Purchased Power	691	715	691	715
Other Operating Expenses	1,053	1,038	1,053	1,038
Maintenance Expenses	446	527	446	527
Admin. & Genl. & Misc.	610	654	610	654
Taxes other than Income	1,256	1,270	1,260	1,274
Income Taxes	423*	288	1,264*	1,161
Depreciation	1,158	1,173	1,158	1,173
Total	5,637	5,665	6,482	6,542
Net Revenue	2,253	2,032	3,067	2,855
Rate Base	39,160	41,851	39,160	41,851
Rate of Return	5.75%	4.86%	7.83%	6.82%

* Includes federal income taxes at 1965 tax rates, from Exhibit No. 11-A.

Application No. 45787.

TABLE IV

RESULTS OF OPERATIONS
(Excluding Effect of Pump Taxes
Year 1964, Adopted)

<u>Item</u>	<u>At Various Rates</u>		
	<u>Present</u>	<u>Proposed#</u>	<u>Authorized</u>
	(Thousands of Dollars)		
Operating Revenues	\$7,760	\$9,470	\$8,600
<u>Operating Expenses</u>			
Purchased Power	680	680	680
Other Operating Expenses	1,050	1,050	1,050
Maintenance Expenses	450	450	450
Admin. & Genl. & Misc.	630	630	630
Wage Adjustment	40	40	40
Taxes other than Income	1,260	1,260	1,260
Income Taxes	330	1,160	720
Depreciation	1,170	1,170	1,170
Total	5,610.	6,440	6,000
Net Revenue	2,150	3,030	2,600
Rate Base	41,600	41,600	41,600
Rate of Return	5.17%	7.28%	6.25%

Application No. 45787.

Operating Revenues

The difference between the revenue estimates of the staff and applicant results from the difference in projected normal revenue per customer. The staff adopted applicant's estimates of number of active service connections.

The staff's estimates of normal revenues for 1963 and 1964 are based largely upon the trend in revenues per metered service customer from 1960 through 1962, modified somewhat to reflect the leveling off of that trend which the staff concludes might reasonably occur. Applicant's revenue estimates for 1963 and 1964 are based upon an analysis and attempted correlation of water sales over the past several years with rainfall and temperatures experienced in those years. Applicant's witness concludes that, although average sales fluctuate considerably with weather conditions,

there is evidence of a continued increase in the average use per customer. He estimates a smaller annual increase, however, than is estimated by the staff.

Examination of the actual revenues per metered service customer for the years 1958 through 1963, as determined from the data presented in Exhibits Nos. 1 and 20, indicates that applicant's projected estimates of revenues from commercial, industrial and public authority customers are reasonable but that its revenue estimates for miscellaneous metered service and flat rate service are somewhat low. Applicant's revenue estimates for metered service, modified to include a more reasonable level of revenues for miscellaneous service, are adopted in Table IV. The staff's estimates of revenues from flat rate service are adopted herein.

Operating Expenses

Applicant's estimate of 1964 expenses related to the operation of sources of supply, pumping, purification, transmission and distribution equipment is only one half percent higher than the staff's estimates, although there are greater percentage differences in the individual items included in this group of expenses. Labor items included in the staff's estimates reflect 1963 wage levels whereas applicant assumed that a higher level of wages would be in effect for 1964. The staff's estimates reflect lower electric power consumption based upon the higher water table experienced in 1962. The staff's estimates for this group of expenses is adopted in Table IV, with a minor reduction consistent with the assumption of lower water consumption in determining the revenue adopted in that table.

Exhibit No. 18 is a preliminary power study made by a staff engineer called by protestant. In that study, the engineer

concluded that a reasonable allowance for 1964 power purchased expense is \$417,000, as compared with the staff estimate of \$691,000 shown in Exhibit No. 11 and the \$680,000 adopted herein. Testimony of other staff engineers discloses that the preliminary study was predicated upon assumed pump efficiencies, total pumping heads and timing and selection of pumping stations to be used, all of which are unrealistic and impossible to attain in actual practice.

For a growing system, an upward trend of normal maintenance expenses can be expected. In addition, abnormal or unusual expenditures might reasonably be expected in some years. Examination of the recorded maintenance expenses for the years 1958 through 1963 indicates that applicant's estimates gave too much weight to the abnormally high maintenance expenses in 1962. The staff's estimate is adopted in Table IV.

The major differences between the 1963 administrative, general and miscellaneous expense estimates of the staff and applicant result from lower staff estimates of office supply expenses, exclusion by the staff of accruals for unfunded pensions of seven officers, lower staff estimates of average annual regulatory Commission expenses, partly offset by higher staff estimates of maintenance expenses. Applicant's estimate for 1963 is about \$22,000 greater than that of the staff. The corresponding difference in the 1964 estimates is \$42,000. The wider divergence in 1964 is due primarily to (1) applicant's projection of increased wage levels as compared with the staff's use of 1963 wage level for both 1963 and 1964, and (2) assumption by applicant that customer growth has a greater effect on this group of expenses than was assumed by the staff. The staff's estimates of administrative, general and miscellaneous expenses for 1964 are adopted in Table IV, modified

somewhat to show a larger amount for office supplies and to reflect a somewhat greater effect of customer growth on this group of expenses.

Wage Adjustment

At the hearings, one of applicant's vice presidents testified that applicant was in the process of negotiating a new wage agreement with the union that represents about 40 percent of applicant's employees. Late-filed Exhibit No. 24 includes a copy of the agreement signed by representatives of both applicant and the union on February 20, 1964, together with an explanatory letter signed by applicant's president.

The agreement was subject to ratification by applicant and members of the union on or before March 3, 1964. As of March 6, 1964, the date of the letter accompanying Exhibit No. 24, notice of such ratification by the union members had not been received by applicant and there is nothing in the record to show whether the wage levels finally agreed upon will be lower than, equal to, or higher than, those which are set forth in Exhibit No. 24. Whatever wage increase finally is established for 1964 will be retroactive to January 1 and, in fact, the approximately four percent increase over 1963 wage levels which would have resulted from the tentative agreement already has been placed in effect for the 60 percent of applicant's employees not covered by the agreement.

The agreement provides for an additional wage increase of about four percent, effective January 1, 1965, but it is not known whether or not the final agreement will have a similar provision, nor what wage level will be in effect in 1965 for the employees not covered by the agreement. On the basis of the record, no recognition can be given to possible 1965 wage increases but \$40,000 is added to 1964 expenses in Table IV to reflect an approximately four

percent increase over 1963 wage levels. Applicant is required by the order herein to file in this proceeding a copy of whatever final wage agreement is made effective for 1964 and 1965.

Taxes and Depreciation

The one percent difference between the estimates by the staff and applicant relating to taxes other than on income is due to the upward trend in ad valorem tax rates assumed by applicant and not by the staff, assumption by the staff of lower investment in storage facilities than estimated by applicant, and allocation by applicant of a greater percentage of its estimated total payroll taxes to operating expense than the percentage allocated by the staff. The staff's estimate, rounded upward consistent with the rate base treatment of investment in storage facilities hereinafter discussed, is incorporated in Table IV.

Most of the difference between staff's estimates of income taxes and those of applicant results from the various differences in estimated revenues and expenses already discussed herein. Also, subsequent to the development of applicant's estimates, federal income tax rates for 1964 and 1965 have been reduced. The 1965 level of income tax rates is reflected in the staff's Exhibit No. 11-A and in the amounts adopted in Table IV.

The staff's depreciation expense estimate is lower than applicant's primarily because of the staff's exclusion of depreciation on certain storage facilities discussed in subsequent paragraphs of this opinion. Applicant's estimate is adopted in Table IV, rounded downward in recognition of the somewhat delayed scheduling indicated by the record for various installations of depreciable plant.

Rate Base

Applicant's estimate of rate base for 1964 is about \$2,690,000 higher than the estimate prepared by the staff. Half of this difference results from exclusion by the staff of storage facilities which it concludes are overbuilt for the present number of customers. Another \$430,000 of the total difference consists of exclusion by the staff of certain historical write-ups of applicant's plant accounts. The remainder of the differences individually are of less significance and stem from such items as differences in estimated scheduling of plant installations and differences in estimated working capital requirements, advances for construction and contributions in aid of construction. Applicant's estimate of rate base is adopted in Table IV, modified downward to reflect the staff estimate of working cash and the delayed scheduling of plant installations referred to in the preceding paragraph.

Storage Adjustment

Studies in various degrees of detail to determine the appropriate amount of storage facilities and, to a lesser extent, production facilities properly to be included in applicant's rate base were made by applicant, the staff, and a staff engineer formerly assigned to this proceeding. There are some infirmities to the presentation on this subject made by each party. For example, applicant's Exhibit No. 25 includes a number of statistics which tend to exaggerate the present storage requirements, as is pointed out in some detail in the brief of the Commission staff. Another example is the staff's consideration in Exhibit No. 11 of overall storage requirements, rather than giving consideration to the distribution of storage capacity, zone by zone. Also, the preliminary report by a staff engineer, presented on behalf of protestant, takes the untenable position that storage capacity could be reduced drastically,

even though it is apparent that a tremendous amount of storage would be required to implement the engineer's concurrent suggestion that well production be confined almost entirely to the 20 stations having the lowest power costs.

In analyzing all of the detailed storage studies, we must not lose sight of the broader overall and long-range picture. None of the parties challenged applicant's proposed storage facilities on the grounds that the cost of installation actually would be less than estimated, nor that applicant actually does not intend to carry out its proposed construction program. Also, we do not have the situation sometimes encountered where a utility has provided poor service with inadequate facilities for years and then suddenly overbuilds its plant at the time of a rate proceeding. In fact, applicant's excellent service record during a long period of rapid growth can be attributed, to a large extent, to its consistent planning and installation of facilities before their need became critical.

Another broad aspect which must be considered is the fact that applicant does not have an affiliate or parent corporation with large quantities of relatively low-cost money which it wishes to invest in order to receive a higher return. Applicant seeks its funds in the normal money market and its common stock is widely held, the largest single holding being about two percent of the total. There is nothing in the record to show that applicant's construction of production and storage facilities is other than a continuation of a long-standing policy of cautious advance planning.

The main issue, then, in regard to the investment properly included in rate base, is the economic feasibility of providing precautions against inadequate service in the event of emergencies such as protracted shutdowns of production, transmission or storage facilities for repairs. The total storage facilities proposed by

applicant should not be too burdensome in relation to the protection provided against diminution in quality of service. No deduction of storage facilities is adopted in Table IV.

Writeup of Land

In applicant's previous rate proceeding, Application No. 34181, the Commission staff attempted unsuccessfully to determine the original cost of land used and useful in the utility operation. It is still apparently impossible to determine whether or not the entries in the land plant accounts for applicant's predecessor reasonably represented original cost. In the current proceeding, however, the staff has shown that write-ups of land accounts in 1914 and 1932 were not for the purpose of correcting any errors in plant accounts but instead were to reflect appreciation in resale values and to absorb the premium paid on the calling of old bonds.

Cross-examination of the staff disclosed that some of the plant subject to the write-ups may since have been retired. Neither applicant nor the staff presented evidence as to the possible magnitude of such retirements nor whether an appropriate portion of the write-ups had been eliminated concurrently with any such retirements. Consistent with the treatment of this item in applicant's previous rate proceeding, the \$434,000 in write-ups has not been excluded from rate base in Table IV. Applicant is placed on notice, however, that it should review the entries in its plant accounts pertaining to its investment in land and to the extent, if any, that such accounting deviates from the instructions contained in the uniform system of accounts prescribed by this Commission it should take such steps as may be necessary to effect compliance with the prescribed accounting requirements.

Trend in Rate of Return

In addition to the 1964 estimates discussed herein, both applicant and the staff prepared corresponding estimates for 1963. By comparing the rates of return estimated for the two consecutive years, the trend in rate of return beyond 1964 is indicated. At

applicant's proposed rates, an annual increase of about 0.1 percent in rate of return results from the staff estimates whereas applicant's estimates show an annual decline of about 0.3 percent.

The difference in trends projected by applicant and the staff is due to the same fundamental differences in methods of estimating 1964 revenues, expenses and rate base hereinbefore discussed. The 1964 results adopted in Table IV, compared with corresponding results which would apply to 1963, at the level of wage and tax rates assumed for 1964, indicates neither an upward nor a downward trend of any significance.

Applicant contends that the customary rate-making procedures applied to water utilities by this Commission do not achieve reasonable end results, in that the "allowed" rate of return set forth in a decision for a given test year may not actually be realized. Applicant points out that, for example, previous known upward trends in wage levels and property tax rates are not recognized by the Commission staff whereas other trends such as increasing consumption per customer and improving water table levels are reflected in the staff estimates. Applicant suggests that greater recognition should be accorded to actual recorded results for some recent representative year, together with the actual trend in rate of return indicated by recorded data for several years. It is further proposed by applicant that the stated rate of return allowed by the Commission should be an average anticipated rate of return over some reasonably long period in the future, rather than a return for a prior or current test year.

It must be conceded that relatively minor distortions in the relationship of estimates for two consecutive test years can produce a disproportionate distortion in the apparent trend in rate of return. With judgment and care, however, trends projected on the

basis of two consecutive years' estimates are reasonably valid. It is noted that the present rates were established for applicant in 1953 to yield a return of 5.8 percent and applicant's Exhibit No. 1 shows that the rate of return based on actual operations for 1958 and 1959 had increased to 6.20 and 6.65 percent, respectively. On applicant's suggested approach, a review in 1959 would have indicated a significant upward trend in rate of return whereas, in fact, an abrupt reversal occurred, resulting in a lowering of the rate of return to 5.69 percent by 1963. Unpredictable random events can change the direction and magnitude of a previously experienced trend. Thus, although the estimates adopted herein indicate no significant upward or downward trend in rate of return, only time can confirm or refute this conclusion.

Pump Taxes

In the course of the hearings in Application No. 45787, reference was made to the probability that ground water extraction charges or "pump taxes" soon would be imposed by Santa Clara County Flood Control and Water Conservation District and by Santa Clara Valley Water Conservation District upon applicant and others extracting water from the underlying water basin. Inasmuch as such charges had not yet been fixed at the time of the hearings, neither applicant nor staff included provision therefor in expense estimates.

Application No. 46594 shows that levies of \$10 and \$8.85, respectively, per acre-foot will be payable to the two districts for all well water extracted by applicant for the water year ended June 30, 1965. After offsetting an anticipated ad valorem tax reduction of \$2,500 and giving consideration to the proportion of applicant's total supply which it obtains from surface sources, additional charges of 4 cents per 100 cubic feet of water sold under general metered service rates and comparable additional charges in rates for limited irrigation service are requested to offset the pump taxes. The pump taxes will add \$1,220,000 to the revenue requirements derived in Table IV.

A staff report, hereby incorporated in the record as Exhibit No. 1 in Application No. 46594, shows that the pump tax rates established by the two districts, applicable to water used for agricultural purposes, will be \$5 and \$2.25, respectively. Because of the limited amounts of agricultural water used by applicant's customers, this reduced rate has no measurable effect on applicant's overall revenue requirement but is given consideration in the limited irrigation service rate schedule authorized herein. Also, it is possible that deliveries to some customers under the other rate schedules may, in the future, also qualify for the lower tax rates. A special condition in the general metered service schedule authorized herein provides an appropriately lower rate for any such deliveries.

Financial and Rate Requirements

In applicant's Exhibit No. 2, a return of 10 percent on common equity was assumed in determining applicant's financial requirements. To produce this average return on equity over the next few years, under applicant's assumption of a downward trend in rate of return, would require a return of 6.82 percent on rate base for the test year 1964. The exhibit shows that applicant must raise \$12,750,000 over the 3-year period ending with 1966. Applicant's witness on financial matters testified that a large proportion of this financing must be accomplished by the sale of common stock and that this factor must be considered in establishing the proper level of earnings.

The staff's Exhibit No. 12 shows that earnings of 10 percent on common stock equity would be achieved by a return of 6.09 percent on rate base, provided rate base and total capitalization are identical. The exhibit states that, under these conditions, the staff considers a 6.09 percent rate of return to be reasonable.

This Commission has often cited numerous factors which it considers, along with cost of money and financial requirements in determining a reasonable rate of return. The more important of such factors are quality of service and the need to raise funds from outside sources to finance necessary construction programs.

The record is quite clear that applicant's quality of service and its ability to fulfill its public obligations are unusually good. An exception is its somewhat shortsighted policy of refusing to extend its mains to serve areas located at higher elevations outside its present service area and, instead, furnishing water for resale by newly formed small utilities in those areas.

The record also is quite clear that applicant will be required to raise substantial sums of money from external sources to finance its anticipated construction program and that a large segment of such funds must necessarily be derived from the sale of common equity if it is to maintain a reasonable capital structure.

Considering the evidence in this proceeding and recognizing that applicant must maintain a balanced capital structure if it is to raise from external sources the funds it will require to finance its construction program, a rate of return of 6½ percent is adopted as reasonable.

The total rate increase requested by applicant in these two proceedings would result in an increase of about 38 percent in operating revenues. Based upon the modified estimates of revenues, expenses and rate base adopted in Table IV and the additional pump taxes of \$1,220,000, an increase of 26½ percent in annual revenues will provide the 6½ percent return found herein to be reasonable. The rates set forth in Appendix A to the order herein are designed to produce the required \$2,060,000 increase.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of increased revenues, but the rates it proposes are excessive.
2. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate bases for the year 1964 are reasonable and reasonably represent the results of applicant's operations, and a rate of return of 6½ percent on said rate base is reasonable for the purposes of this proceeding.
3. The increases in rates and charges authorized herein are justified, the 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 Commission concludes that the applications should be granted to the extent set forth in the ensuing order. A public hearing on Application No. 46594 is not necessary.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant San Jose Water Works is authorized to file the revised schedules of rates set forth in Appendix A to this order. Such filing shall comply with General Order No. 96-A. The revised rate schedules shall become effective for service rendered on and after July 1, 1964, or on and after the fourth day following the date of filing, whichever is later.
2. Within ten days after applicant's pending wage negotiations are completed and a final wage agreement ratified by the

parties thereto, applicant shall file in this proceeding a true copy of the ratified agreement.

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

Dated at San Francisco, California, this 31 day of June, 1964.

Hallam L. Bennett
President
John E. ...
...
George T. Grover
Fredrick B. Halchuff
Commissioners

APPENDIX A
Page 1 of 9

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Campbell, Cupertino, Los Gatos, Monte Soreno, (T)
San Jose, Santa Clara and Saratoga, and vicinity, Santa Clara (T)
County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 1.55	(C)
For 3/4-inch meter	1.75	
For 1-inch meter	2.35	
For 1 1/2-inch meter	3.30	
For 2-inch meter	4.20	
For 3-inch meter	8.00	
For 4-inch meter	11.00	
For 6-inch meter	18.00	
For 8-inch meter	26.00	
For 10-inch meter	33.00	

Quantity Rates:

First 30,000 cu.ft., per 100 cu.ft.	\$ 0.24
Over 30,000 cu.ft., per 100 cu.ft.	.21

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

SPECIAL CONDITION

Customers who receive water deliveries for agricultural purposes under this schedule, and who present evidence to the utility that such deliveries qualify for the lower pump tax rates levied by Santa Clara County Flood Control and Water Conservation District and by Santa Clara Valley Water Conservation District for agricultural water, shall receive a credit of 2 1/2 cents per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill. (C)

APPENDIX A
Page 2 of 9

Schedule No. 11-1 (T)

METERED SERVICE TO CUSTOMERS ON "ALMADEN PIPELINE" (T)

APPLICABILITY

Applicable to all service from the "Almaden Pipeline". (T)

TERRITORY

Adjacent to the "Almaden Pipeline", which extends in a southerly direction approximately four (4) miles from the junction of the San Jose-Almaden Road and Camden Avenue to the vicinity of Almaden Pumping Station No. 3, Santa Clara County. (T)
(T)

RATES

The rates and special condition set forth in Schedule No. 1, General Metered Service. (T)
(T)

SPECIAL CONDITION

The conditions of service shall be governed by a written agreement, the general form of which is included in the tariff schedules.

Schedule No. 11-2 (T)

METERED SERVICE TO CUSTOMERS ON 6-INCH LINE INSTALLED BY (T)
SANTA CLARA VALLEY WATER CONSERVATION DISTRICT

APPLICABILITY

Applicable to service from the 6-inch pipeline installed by Santa Clara Valley Water Conservation District. (T)
(T)

TERRITORY

Lexington Dam area, Alma, Santa Clara County. (T)

RATES

The rates and special condition set forth in Schedule No. 1, General Metered Service. (T)
(T)

SPECIAL CONDITIONS

1. Service shall be limited to the lands of the nine (9) customers described in C.P.U.C. Decision No. 45159, Case No. 5490, or their successors in occupancy, with only one service connection to each property. (T)
|
(T)

2. Service under this schedule shall be rendered to, and meters installed at, the point of connection of the service lines of such customers to said 6-inch pipeline.

3. All billing under this schedule shall be subject to a surcharge based on the power cost of operating the pump, on said 6-inch pipeline, required to render service to the above-described customers, prorated on the basis of monthly charges to each such customer at the basic rates for general metered service.

APPENDIX A
Page 4 of 9

Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE (N)

APPLICABILITY

Applicable to water service furnished on a limited temporary flat rate basis. (N)
(N)

TERRITORY

Almaden area, Santa Clara County. (T)

RATE

	<u>Per Month</u>	
For each service connection, including irrigation of not more than 2,500 square feet of garden area	\$2.25	(T) (T)

SPECIAL CONDITIONS

1. Service under this schedule shall be limited to the following five existing services for which the installation of meters was not expedient: (N)

Mrs. Marian W. Kipp	Acct. No. 26-505-5370
Mr. H. M. Alley	Acct. No. 26-505-5350
Mr. Frank E. Fuller	Acct. No. 26-505-5335
Mr. Roy R. Harris	Acct. No. 26-505-5330
Mr. William P. Poelle	Acct. No. 26-505-5320

2. This schedule will remain in effect only until such time as physical limitations will permit the installation of meters, and thereafter will be withdrawn. (N)

Schedule No. 3ML

LIMITED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

The 460-acre area adjacent to the City of Campbell, Santa Clara County.

RATE

	<u>Per Hour</u>	
For 650 gallons per minute	\$ 4.62	(C)

SPECIAL CONDITIONS

1. Service under this schedule is limited to the area formerly served by the system known as the E. R. Kennedy Pumping Plant System, and as more particularly described and shown on Exhibit B of Application No. 27792 and further referred to in Decision No. 39508 in that application. (T)

2. Rates per hour for other flows will be proportionate to the rate for 650 gallons per minute. (C)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Campbell, Cupertino, Los Gatos, Monte Sereno, San Jose, Santa Clara, and Saratoga, and vicinity, Santa Clara County. (T)

RATES

	<u>Per Service Connection Per Month</u>
For each 2-inch service	\$ 3.00
For each 4-inch service	5.60
For each 6-inch service	9.50
For each 8-inch service	15.00
For each 10-inch service	25.00

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. (N)

2. 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. (T)

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS--Contd.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install, at its own expense, the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water. (N)

(N)
(T)
(T)
4. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. 1, General Metered Service. (N)

(N)
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system. (N)

Schedule No. 5

PUBLIC FIRE HYDRANT RATES

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts, and other political subdivisions of the State.

(T)
|
(T)

TERRITORY

Portions of Campbell, Cupertino, Los Gatos, Monte Sereno, San Jose, Santa Clara and Saratoga, and vicinity, Santa Clara County.

(T)
(T)

RATES

	<u>Per Month</u>
For each hydrant owned by the utility	\$3.25
For each hydrant owned by the municipality or public agency	2.50

SPECIAL CONDITIONS

1. Hydrants owned by the municipality or other public agency shall be installed, maintained, painted, inspected and relocated at the expense of the municipality or other public agency. The utility will install and own the tie in, the main and the pipe to the hydrant valve.

(N)
|
(N)

2. The above rates include use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purposes will be estimated or measured and charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

(T)
(T)

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

(T)

Schedule No. 10R

(N)

SERVICE TO EMPLOYEES

APPLICABILITY

Applicable to all residential water service furnished to each employee of San Jose Water Works who is the head of his family or who is the chief support of his family.

TERRITORY

Portions of Campbell, Cupertino, Los Gatos, Monte Sereno, San Jose, Santa Clara and Saratoga, and vicinity, Santa Clara County.

(N)

RATE

Free of Charge.

SPECIAL CONDITION

Service under this schedule shall be for domestic purpose at the employee's place of residence.

(N)

(N)