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Decision No. 75502

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY, a corporation, for an order authorizing it to increase rates charged for water service in the Stockton district.	Application No. 50351 (Filed June 26, 1968; Amended July 24, 1968)

McCutchen, Doyle, Brown & Enersen, by A. Crawford Greene, Jr., for applicant.
Bruce McKnight, for City of Stockton and County of San Joaquin, protestants.
Elinore C. Morgan and Janice E. Kerr, Counsel, J. E. Johnson and A. L. Gieleghem, for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks authority to increase rates for water service in its Stockton district.

Public hearing was held before Examiner Catey in Stockton on December 3, 4 and 5, 1968 and January 13, 1969. Copies of the application had been served, notice of filing of the application published, and notice of hearing published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on January 13, 1969.

Testimony on behalf of applicant was presented by its president, its vice-president, and its chief engineer, its general manager and its consulting engineer. Testimony on behalf of protestants City of Stockton and County of San Joaquin was presented by their consulting accountant. Two customers testified, one on his own behalf and one on behalf of customers who are senior citizens. The Commission staff presentation was made through two accountants and two engineers.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Stockton district includes the City of Stockton and unincorporated areas of San Joaquin County adjacent to the city. The service area is quite flat, ranging from near sea level to approximately 30 feet above sea level. Total population served in the district is estimated at 130,000.

The entire water supply for this district now is obtained from applicant's 64 wells. By the year 1980, applicant anticipates that American River water will be available from the Folsom South Canal to be constructed by the U.S. Bureau of Reclamation.

The distribution system includes about 412 miles of distribution mains, ranging in size up to 27-inch. There are about 35,700 metered services, 250 private fire protection services and 2,050 public fire hydrants. Thirteen reservoirs and storage tanks and 12 booster pumps maintain system pressure and provide storage for the system. One booster is driven by a gasoline engine. Each of the other booster pumps has an electric motor and provision for emergency connection to one of two portable, gasoline-powered pumps normally stationed in the district.

Service

A field investigation of applicant's operations, service and facilities in its Stockton district was made by the Commission staff. The plant was found to be in good condition, and satisfactory service was being provided. A staff engineer testified that only 17 informal complaints have been registered with the Commission during the past four years and that all of these complaints were resolved to the customers' satisfaction.

Rates

Applicant's present tariffs include schedules for general metered service, private fire protection service, public fire hydrant service and service to company employees. The temporary West Lane Heights rates were adopted from a predecessor in 1968. The rest of the present rates became effective in 1965.

Applicant proposes to increase its rates for general metered service. There are no proposed changes in the other schedules. The following Table I presents a comparison of applicant's present general metered service rates, those requested by applicant, and those authorized herein.

Table I

Comparison of Monthly Rates

General Metered Service	Present	Proposed#	Authorized#
Service Charge*	$2.35	$3.15	$3.05
Quantity Rates:			
First 30,000 cu.ft., per 100 cu.ft.	.13	.169	.164
Over 30,000 cu.ft., per 100 cu.ft.	.10	.126	.124

* Service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

\# Until the 10 percent surcharge to Federal income tax is removed, bills computed under proposed rates to be increased by 3.11 percent, and under authorized rates by 2.76 percent.

Table 12-C of Exhibit No. 7 shows that, for a typical commercial customer with average monthly consumption of 2,108 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge would increase 32 percent from $5.09 under present rates to $6.71

under the rates proposed in the original application. The temporary 3.11 percent surcharge requested in the amendment would add $0.21 to this average monthly charge at proposed rates. Under the rates authorized herein, the average monthly charge for the typical commercial customer will increase 28 percent to $6.51 under the basic rates, with an additional $0.18 while the temporary 2.76 percent surcharge remains in effect.

One customer testified that any water rate increase would be a hardship on senior citizens in the area. It is not feasible, however, to establish a water rate preferential to senior citizens. Another customer questioned the reasonableness of higher service charges for larger meters. The record shows, however, that the actual cost of service through a large meter is greater than through a smaller meter.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from applicant's Exhibit No. 7 and the staff's Exhibit No. 9, are the estimated results of operation for the test year 1969, under present rates and under those proposed by applicant, before considering the additional expenses and offsetting revenue requirement resulting from the 10 percent surcharge to Federal income tax. For comparison, this table also shows the corresponding results of operation modified as discussed hereinafter.

Table II

Estimated Results of Operation
Test Year 1969

Item	Applicant	Staff	Modified
At Present Rates			
Operating Revenues	$ 2,635,200	$ 2,621,700	$ 2,622,000
Deductions			
District Operations Payroll	297,100	290,500	293,000
District Operations Expense Excl. Purch. Power, Chemicals, Wtr. Extraction Chg.	117,400	108,400	108,000
District Mtce.Exp. Excl. Payroll	82,500	75,500	78,000
Other Oper. & Mtce. Exp.	397,900	397,100	398,000
Admin., Genl. & Miscl. Exp.	182,600	180,600	181,000
Taxes,Excl.Franch.& Inc. Taxes	489,300	488,300	505,000
Depreciation	346,600	347,200	352,000
Subtotal	1,913,400	1,887,600	1,915,000
Local Franchise Taxes	12,600	12,700	13,000
Income Taxes	111,300	111,400	100,000
Total	2,037,300	2,011,700	2,028,000
Net Revenue	597,900	610,000	594,000
Rate Base	12,617,000	12,590,200	12,836,000
Rate of Return	4.74%	4.85%	4.63%
At Rates Proposed by Applicant			
Operating Revenues	$ 3,405,500	$ 3,421,500	$ 3,422,000
Deductions			
Excl.Franch. & Inc. Taxes	1,913,400	1,887,600	1,915,000
Local Franchise Taxes	16,300	16,400	16,000
Income Taxes	507,200	522,600	511,000
Total	2,436,900	2,426,600	2,442,000
Net Revenue	968,600	994,900	980,000
Rate Base	12,617,000	12,590,200	12,836,000
Rate of Return	7.68%	7.90%	7.63%
At Rates Authorized Herein			
Operating Revenues	-	-	$ 3,324,000
Deductions			
Excl.Franch. & Inc. Taxes	-	-	1,915,000
Local Franchise Taxes	-	-	16,000
Income Taxes	-	-	461,000
Total	-	-	2,392,000
Net Revenue	-	-	932,000
Rate Base	-	-	12,836,000
Rate of Return	-	-	7.26%

From Table II it can be determined that, exclusive of the temporary increase due to the income tax surcharge, the increase in operating revenues would be 31 percent under applicant's proposed rates and will be 27 percent under the rates authorized herein.

Operating Revenues

The operating revenue estimates of applicant and the staff differ primarily because (1) applicant used a less accurate method of estimating 1969 revenues at present rates than did the staff, (2) applicant projected a slightly lower number of customers in 1969 than did the staff, and (3) applicant used a recent "equivalent meter factor" to estimate service charge revenues from larger meters, whereas the staff projected the trend of this factor. The staff estimates appear to be more accurate and are adopted in Table II.

District Operations Payroll

This category of expense is subject to some fluctuation from year to year, due to such factors as personnel changes and allocation of employees' time required for maintenance work. Applicant's estimates reflect a long-term trend, to which was added an amount in recognition of the change of one employee from part-time to full-time work. The staff used the same basic trend data, but reduced the expenses in recognition of the fact that 1967 actual expenses fall below the long-term trend. The long-term trend indicated by Exhibit No. 7-F, without further addition for personnel changes or reduction for lower 1967 expenses appears reasonable and is adopted in Table II.

Other District Operations Expense

In developing the historical trend of these expenses, applicant applied a "labor factor" to certain nonlabor items,

whereas the staff projected separate estimates for those items. Although the staff did not include any allowance for the recent telephone rate increase nor for increased uncollectibles under proposed water rates, there is nothing in the record to indicate that these items are of significant magnitude. Also, the record does not indicate that the staff estimates deviate from the long-term trend for other district operations expenses as they did in the estimates of district operations payroll. The staff's method appears inherently more accurate than applicant's and the staff estimate is adopted in Table II.

District Maintenance Expense

This group of expenses is subject to more erratic fluctuations from year to year than are operations expenses. Applicant projected an estimated straight-line trend through the scattered points on a graph, Exhibit No. 7-E, of these expenses for the years 1955 through 1967, in arriving at its 1969 expense estimates. The staff considered the data from the earlier part of the 13-year period to be too erratic and used only the last eight years in its development of a trend. Exhibit No. 7-E shows that the mathematically derived average trend varies considerably, depending upon the period used in computing the trend. It appears that the most valid trend would be one that includes several cycles of high and low levels of expenses. The mathematically derived trend for the full 13-year period shown on Exhibit No. 7-E spans three peaks and at least three low points and is used in deriving the expenses adopted in Table II.

Administrative, General & Miscellaneous Expenses

The difference between the estimates of applicant and staff for this group of expenses appears to be due to the staff's

more detailed development of individual expenses within the group. The staff estimate is adopted in Table II.

Taxes Other Than on Revenues and Income

There are only minor differences between the estimates of applicant and staff for this group of taxes.

The overall effective ad valorem tax rate for this district shows a rather erratic pattern over the past decade, as is portrayed by Chart 7-A of Exhibit No. 7. Both applicant and staff projected a trend which appeared reasonable based upon data ending with the 1967-68 fiscal year. By the time of the December 5 hearing, actual tax bills for 1968-69 were available. The actual composite effective rate for that period indicates that the relatively long-term slope of applicant's and staff's estimated trend line is probably reasonable, but the level of that line is too low. The taxes adopted in Table II include additional amounts to reflect the recent tax data and more recent data on plant additions discussed hereinafter.

Depreciation

The minor difference between the depreciation estimates of applicant and staff results largely from applicant's 10-year and the staff's 5-year write-off of certain billing office plant which was retired prematurely due to conversion to electronic data processing for billing purposes. Although there would be some logic in changing to a 10-year write-off, consistent with the 10-year amortization of conversion costs adopted in previous decisions, the dollar amounts involved in any one district are not of sufficient magnitude to warrant that change. The staff's depreciation estimate is adopted in Table II, increased to reflect more recent data on plant additions discussed hereinafter.

Income Taxes

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. Also, applicant used a five-year average of investment tax credit, including one-fifth of the credit relating to the 1969 River Ranch facilities hereinafter discussed, whereas the staff included the effect of one-third of the River Ranch project in its average. There appears no valid reason to use other than a five-year spread of all such credits, including those related to the River Ranch facilities. The income taxes adopted in Table II reflect the five-year spread of investment tax credit and also reflect the greater depreciation deduction and greater average investment tax credit allowable for income tax purposes, based upon the more recent data on plant additions discussed hereinafter.

River Ranch Project

In recent years, it has become evident that some deterioration in water quality through saline intrusion is occurring in wells located on the southwest side of Stockton. Even when the withdrawals of water do not exceed the normal replenishment of the underground supply from natural sources, the cone of depression of subsurface water levels created by the operation of wells of applicant and other producers in the area causes water of poor quality to be drawn "upstream" to the normal underground flow of water. This could cause virtually permanent damage to the underground basin.

In the early 1950's the State Department of Water Resources had studied this problem. In 1955 protestant City of Stockton hired consulting engineers to study potential solutions.

In 1959 protestant and applicant, together with East San Joaquin Water Conservation District, cooperated in the hiring of another consulting engineering firm to make specific recommendations as to what should be done. Several more recent studies have been financed by applicant.

It has been the unanimous opinion of the experts who have studied the situation that the Stockton area ultimately must obtain an additional supply of water to supplement the local supply. Plans have been formulated and are being executed to bring water to the Stockton area from the American River, as part of a master plan of water distribution.

In the meantime, and even after imported water is available, it is essential that a larger proportion of the local supply be drawn from wells farther "upstream" from many of applicant's present wells. In 1966, applicant located, condemned and acquired a 300-acre parcel called the "River Ranch". About one-third of this property will make a suitable well field, another third is planned to be utilized for a purification plant when imported water is available, and the remaining one-third is not needed for utility purposes.

The first phase of applicant's River Ranch project will consist primarily of five wells and the transmission mains to connect those wells into strategic points in the distribution system. This initial phase is scheduled for completion during 1969. Applicant expects these facilities to extend the lives of existing wells so that they may be used for limited periods of peak demand and as emergency standby sources.

Both applicant and the staff "rolled back" the effects of the initial phase of the River Ranch project to the beginning of

1968 in estimating expenses and rate base for the 1968 and 1969 test years. Protestants question the propriety of this approach, inasmuch as the work will not be completed until late in 1969. We consider the "rollback" to be appropriate because (1) rates are set prospectively, (2) the initial phase is scheduled to be completed before 1970, (3) the various supplements to Exhibit No. 7 show that 1969 actual earnings will not be made excessive by adopting the "rollback" in setting rates because the unavoidable lag in effective date of increased rates will offset the lag in completion of the work, and (4) unless a consistent approach is used for both test years, an unrealistic and distorted trend in rate of return would be indicated by those test years.

Applicant's 1969 estimated results of operations summarized hereinbefore in Table II include applicant's preliminary estimate of $1,620,400 for the initial phase of the River Ranch project. The staff's corresponding summary reflects a reduction of $14,400 from the original estimate for necessary design changes known at the time the staff estimates were being prepared. At the December 5 hearing, applicant presented, in Exhibit No. 7-A, the effect of other necessary design changes and the final detailed cost estimates. Protestants suggest that no action be taken on the requested rate increase until the work is completed and actual costs, rather than estimates, are available. The accuracy of the final estimates, however, is reasonably confirmed in that the low bid on about one-third of the expenditures was within $8,000 of the estimate for that portion. Further, the order which follows requires applicant to supply actual cost data as they become available, so that the accuracy of the estimates may further be verified. The rate base adopted in Table II reflects the later more detailed estimates of cost.

Both applicant and the staff excluded from rate base the portion of the River Ranch property which is being held for use as a site for a purification plant at some indeterminate future date. This is consistent with the treatment accorded certain land in applicant's Oroville district, as discussed in Decision No. 72718, dated July 11, 1967, in Application No. 48902:

> "Applicant has purchased parcels of land for use at a future date which is not presently determinable as sites for a well, a booster station and a filter plant. Although it is not appropriate to include the cost of those sites in rate base until beneficial use of the property is imminent, applicant should not be penalized for its foresightedness.
>
> "In order to provide equitable treatment to the utility and its customers under the particular circumstances existing in connection with this acquisition of land, it would be appropriate for applicant to establish and maintain memorandum records in which it would list the costs incurred or associated with the holding of the property acquired for future use. Then, at such time as the property becomes part of the operative plant, applicant will be in a position to request appropriate recognition of these costs in future rate proceedings. With this treatment, if unforseen future developments dictate that the well, booster or filter site will not be needed, the customers will not have borne any of the cost. If on the other hand the sites ultimately are utilized as planned, the prudency of the earlier acquisition can be evaluated and recognition given in setting rates to be paid by customers benefiting from the facilities."

Applicant suggests that the Commission may wish to change this policy in the current proceeding, in regard to the portion of the River Ranch reserved for a purification plant site. Applicant's Exhibit No. 7-G indicates that the present policy could result in cumulative net holding costs of over $84,000 in ten years, an increase of 56 percent over the original cost of $149,400. However, if customers during that ten-year period in which the plant was unused were required to pay rates which covered annually about $4,500 of ad valorem taxes and $10,500 return on the initial

investment, they would pay about $150,000 in additional water rates, even ignoring the additional amount required to cover applicant's increased income taxes during that same period. We see no reason to deviate from the policy enunciated in the Oroville district decision.

Other Rate Base Adjustments

Neither applicant nor staff included in their estimates the effect of work scheduled on the Westside Freeway during 1969, which work was not anticipated when applicant and staff were preparing their estimates. This highway work will require extensive plant changes by applicant, for which it will be reimbursed only in part. At the December 5 hearing, applicant presented, in Exhibit No. 7-A, the estimated effect of this work, which must be completed by July of 1969. The rate base adopted in Table II reflects the estimated net investment of $121,000 required by applicant as a result of the freeway construction "rolled back" to the beginning of 1968. The order which follows requires applicant to supply actual cost data as they become available.

The staff's revenue estimates adopted in Table II include the effect of a higher estimate by the staff than by applicant as to the average number of customers for 1969. The staff failed to include additional plant consistent with the revenue estimates. The rate base adopted in Table II includes such an allowance.

The lead-lag studies used by applicant and the staff each developed the average lag from accrual to payment of Federal income taxes on the assumption that the payments within each tax year are made in four equal installments. Cross-examination by protestants disclosed that this assumption is incorrect. Applicant's president testified that the payments actually are based upon annualization of

each quarter's income, which results in the least prepayment of Federal income taxes. Applying the actual method of payment to the lead-lag studies results in over twice the number of days' lag for this one item, but only about 2-1/2 days more lag for the composite of all expense items in the lead-lag study. The rate base adopted in Table II includes working cash based upon the actual payment procedure followed by applicant.

The following Table III summarizes the modifications to the staff rate base estimate, as adopted in Table II:

Table III
Development of Rate Base
Test Year 1969

Item	Amount
Staff's Estimated Rate Base	$12,590,200
Add for Revised River Ranch Estimates	113,500
Add for Westside Freeway	121,000
Add for Additional Customers	26,300
Deduct for Corrected Working Cash	(15,000)
Total	$12,836,000

Surcharge to Federal Income Tax

Subsequent to the filing of the application, a 10 percent surcharge to Federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge is retroactive for the full year 1968 and, unless extended, expires June 30, 1969. The amended application shows that a 3.11 percent surcharge on bills computed under the general metered service rates requested in the original application will be required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table II. Applicant's proposed surcharge on its bills will offset only the future effect of the tax surcharge and

is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

Rate of Return

In the three recent rate proceedings involving applicant's San Carlos, South San Francisco and San Mateo districts, the Commission found that an average rate of return of 6.7 percent over the next two and one-half to four years is reasonable for applicant's operations. Applicant asks that rates be authorized for its Stockton district which will produce a 7 percent rate of return over the next five years. Protestants contend that a 7 percent return would be unreasonably high, but do not suggest a level which they consider reasonable. The staff recommends, as a reasonable average allowable rate of return for applicant's near future operations, 6.7 to 6.9 percent.

In Schedule 5 of Exhibit No. 2, applicant projects the capitalization through the year 1975 which would result from 3 percent annual increases in dollars of common equity from retained earnings, $40,000 (approximately 0.1 percent) annual increases in common equity due to conversion of preferred shares to common, and the borrowing of all remaining capital required during that period at 6.84 percent interest, the effective rate in applicant's recent bond financing. This schedule indicates that, during the five-year period 1969 through 1974, a fixed 7 percent return on total capitalization would result in a declining 10-3/4 to 10-1/4 percent return on common equity. During that five-year period, the projected financing would result in a gradually declining percentage of overall capital represented by common equity. The leveraging effect of

this slimmer equity, which by itself, would tend to increase the return on equity is, however, more than offset by the fact that new borrowings are at a significantly higher interest rate than applicant's present 4.1% imbedded cost of borrowed capital. The new borrowing thus erodes the earnings on common equity under the assumption of a fixed rate of return on total capitalization.

In Exhibit No. 10, protestants point out that the 44 percent common equity proportion of applicant's total capitalization has remained unchanged for several years, despite the sale of almost $6,000,000 of bonds and no new issues of common stock during that period. This is due primarily to retained earnings. Protestants contend that the ratepayers are thus being asked to pay a return on capital which those same ratepayers have provided to applicant. We cannot concur in protestants' contention. If a utility chooses to distribute only a portion of its earnings to its stockholders and invests the remainder in utility plant, it must fairly be considered that the retained earnings have been provided by the stockholders. The stockholders presumably are willing to receive a lower yield in the form of dividends in recognition of the resultant accretions to their equity in the enterprise.

Protestants question the validity of applicant's estimated 3 percent annual increase in dollars of common equity from retained earnings. They point out that, at current dividend rates, a somewhat higher annual increase would result. However, as stockholders' equity per share increases with retained earnings, a higher dividend per share is required to produce the same percentage yield on the stockholders' total investment. Also, applicant presumably could vary its dividend payout ratio within reasonable limits if such

action were desirable to keep the capital structure in balance.

Protestants quote testimony of one of applicant's witnesses in the 1964 Stockton rate proceeding wherein he stated that a 38 to 39 percent equity position would be appropriate. Protestants consider that applicant's 44 percent equity position is disadvantageous to the customers in that a higher debt ratio would result in lower income taxes and a smaller requirement for earnings on common equity. The Commission staff witness on cost of money and rate of return testified that a company with a higher equity ratio would normally be given an allowance of a slightly lower equity return than would a company with a lower equity ratio and, further, that a company with a higher equity ratio generally would be paying a lower interest rate on its debt than would a company with a lower equity ratio. These factors tend to offset the adverse effects cited by protestants. In any event, the staff witness testified that he did not consider applicant to be a high-equity company but considered it to be in the middle and in the normal pattern, although somewhat higher than the average of eleven large water utilities shown in Table No. 3 of Staff Exhibit No. 5.

The staff's recommendation as to the reasonable average allowable rate of return on rate base for the near future is based upon a number of considerations set forth in Exhibit No. 5. These are:

1. Applicant is operating in a growth area of California with resulting need for construction funds.

2. The increase in debt costs which results in an increased imbedded cost of debt.

3. The portion of construction expenditures provided by subdividers' advances.

4. Applicant's efforts to maintain a stable common equity ratio.

We concur with the staff's recommendation as to the range of reasonable average allowable rate of return on rate base for the near future. Other factors, such as applicant's record of good service to its customers and its adoption of economic efficiencies, such as the use of liberalized depreciation for tax purposes, lead us to conclude that a 6.9 percent rate of return is reasonable.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.40 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.36 percent at proposed rates.

The comparative rates of return for two successive test years, or for a series of recorded years, are indicative of the future trend in rate of return only if the rates of change of major individual components of revenues, expenses and rate base in the test years, or recorded years, are reasonably indicative of the future trend of those items. Distortions caused by abnormal, nonrecurring or sporadically recurring changes in revenues, expenses, or rate base items must be avoided to provide a valid basis for projection of the anticipated future trend in rate of return.

As an indication of the reasonableness of the trend in rate of return derived from the test years 1968 and 1969, applicant prepared Exhibit No. 8, a comprehensive analysis of the many changes in recorded items of revenues, expenses and rate base during the

years 1962 through 1967. Applicant analyzed and evaluated distortions during those years caused by such factors as changes in (1) its own water rates, and (2) income tax rates and allowances.

Exhibit No. 8 shows that, eliminating the effects of changes in applicant's water rates and changes in income tax rates and allowances, the average annual decline in rate of return during the period from 1962 through 1967 would have been 0.38 percent at applicant's present water rates and somewhat greater at its proposed rates. This adjusted decline for the five-year period is greater than the 0.34 percent per year at present water rates projected by applicant and the 0.29 percent projected by the staff because of a number of small differences in trend of individual items from 1962 to 1967 as compared with the estimated future trend. There is no reason to believe that the trend in rate of return at applicant's proposed water rates in the next few years will be less than the 0.35 percent per year which applicant requests be considered for rate-making purposes.

In most of the recent decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. That same approach is adopted for this proceeding. With so much of the additional revenue requirement being due to capital additions, the cost of which cannot be exactly determined at this time, it is not appropriate to project more than three years into the future.

The rate increase authorized herein will not be in effect for about the first one-third of the year 1969, which offsets the "rollback" of plant adopted herein. With the indicated future trend in rate of return, the 7.26 percent return under the rates authorized herein for the test year 1969 should produce an average rate of return of 6.9 percent for the next three years, approximately 7.2 percent for the year 1969 (with about two-thirds of the year at the new rates), 6.9 percent for the year 1970, and 6.6 percent for 1971.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1969, and an annual decline of 0.35 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.

3. An average rate of return of 6.9 percent on applicant's rate base for the next three years is reasonable.

4. 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 application should be granted in part.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant California Water Service Company is authorized to file for its

Stockton district the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. Within fifteen days after the end of each remaining month in 1969, applicant shall file a progress report showing the cumulative net amounts expended for:

(a) The River Ranch project.

(b) The Westside Freeway Project.

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

Dated at San Francisco, California, this 1st day of APRIL, 1969.

William Symons Jr.
President

Commissioners

APPENDIX A

Schedule No. ST-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stockton and vicinity, San Joaquin County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 3.05	(I)
For 3/4-inch meter	3.35	
For 1-inch meter	4.55	
For 1½-inch meter	6.40	
For 2-inch meter	8.25	
For 3-inch meter	15.00	
For 4-inch meter	21.00	
For 6-inch meter	35.00	
For 8-inch meter	51.00	
For 10-inch meter	63.00	
Quantity Rates:		
For the first 30,000 cu.ft., per 100 cu.ft.	$ 0.164	
For all over 30,000 cu.ft., per 100 cu.ft.	0.124	(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. (T) (T)

SPECIAL CONDITION

Until the 10 percent surcharge to federal income tax is removed, bills computed under the above tariff will be increased by 2.76 percent. (N) (N)