EK/VO

ORIGINAL

Decision No. 79699

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CITIZENS UTILITIES COMPANY OF CALIFORNIA, a corporation, for authority first to increase its rates and charges for its water system serving the town and vicinity of Felton in Santa Cruz County, and second, for interim rate relief.	Application No. 52159 (Filed August 26, 1970)

Heller, Ehrman, White and McAuliffe, by Weyman I. Lundquist, Attorney at Law, for applicant.
Charles R. Mack, County Counsel, Yolo County, and Lynn D. Finney, Assistant County Counsel, Santa Cruz County, intervenors.
Donald Meaney, Attorney at Law, and J. D. Reader, for the Commission staff.

O P I N I O N

In Application No. 52159, Citizens Utilities Company of California (Citizens-California), a wholly owned subsidiary of Citizens Utilities Company of Delaware (Citizens-Delaware), requests an increase in rates for water service by its Felton Water District.[1/] The application was consolidated for hearing purposes with similar requests by two subsidiary companies of Citizens-Delaware, the Washington Water and Light Company in Application No. 52160, and the Larkfield Water Company in Application No. 52161. Issues common to all three applications were heard in public hearings before Examiner Foley on May 6 and 7, 1971 in San Francisco. An additional two days of public

1/ Citizens-Delaware is a nationwide utility which provides gas, electric, telephone and water services in over 450 communities in the U.S. It had gross operating revenues of over $27 million during 1969.

hearing relating to the operations of the Felton District were held on May 24, 1971 in Felton and on May 25, 1971 in Santa Cruz. The matter was submitted subject to the filing of briefs on July 14, 1971; and September 15, 1971.

Citizens-California acquired the Felton District in 1962 when it acquired all the stock of the Felton Water Company.2/ The Felton District serves over 900 customers near Felton in Santa Cruz County. Its sources of water supply include diversions from Fall Creek and Bull Creek, as well as two springs and one well equipped with a deep well turbine. There are two earthen reservoirs and nine storage tanks which provide a combined total storage capacity of 515,000 gallons.

Felton was last authorized to increase its water rates in Application No. 45164, dated February 5, 1963 by Decision No. 68706, dated March 9, 1965, after rehearing. The Commission found that a 6.5 percent rate of return was reasonable. Felton was also granted a rate increase to offset the federal income tax surcharge by Decision No. 77133, dated April 21, 1970 in Application No. 50567. An interim rate increase in this proceeding was denied by Decision No. 78665, dated May 11, 1971.

<u>Present and Proposed Rates</u>

Applicant proposes that its Felton District rates be increased by $35,449 or 46 percent in order to realize a rate of return between 9.3 and 11.5 percent on its net investment rate base.

2/ As of December 31, 1969 Citizens-California owns and operates water systems which serve over 21,000 consumers in twelve separate districts or areas in Northern California.

The proposed rates would result in increases to customers for general metered service as shown below:

	Per Meter Per Month	
	Present Rates	Proposed Rates
Monthly Quantity Rates:		
First 5,000 cu.ft., per 100 cu.ft. ...	$ 0.38	$ 0.562
Over 5,000 cu.ft., per 100 cu.ft. ...	0.31	0.459
Annual Service Charge:	Per Meter Per Year	
For 5/8 x 3/4-inch meter	$ 30.00	$ 44.50
For 3/4-inch meter	45.00	66.50
For 1-inch meter	72.00	106.50
For 1-1/2-inch meter	120.00	178.00
For 2-inch meter	192.00	284.00
For 3-inch meter	360.00	533.00
For 4-inch meter	528.00	782.00

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

Applicant does not seek any increase in the presently authorized charges for fire protection services.

Summaries of Earnings

The following are the applicant's and the staff's adjusted summaries of earnings for the pro forma year 1970:

Item	Applicant: Present Rates 1/	Applicant: Proposed Rates 2/	Staff Revised 1970 Estimated 3/: Present Rates	Staff Revised 1970 Estimated 3/: Proposed Rates	Applicant Exceeds Staff: Present	Applicant Exceeds Staff: Proposed
Operating Revenues	$ 76,594	$112,043	$ 69,113	$101,590	$7,481	$10,453
Operating Expenses						
Opr. and Maint.	29,803	30,273	29,100	29,225	703	1,048
Adm. and General	14,064	14,235	11,056	11,227	3,008	3,008
Depreciation	9,608	9,036	7,343	7,343	2,265	1,693
Taxes other than Income	18,221	18,221	9,285	9,285	8,936	8,936
Income Taxes	-	15,833	1,077	17,695	(1,077)	(1,862)
Total Expenses	71,696	87,598	57,861	74,775	13,835	12,823
Net Opr. Rev.	4,898	24,445	11,252	26,815	(6,354)	(2,370)
Depr. Rate Base	319,254	322,077	241,900	241,900	77,354	80,177
Rate of Return	1.53%	7.59%	4.65%	11.09%	(3.12)%	(3.50)%

(Red Figure)

1/ Exh. No. F-7.
2/ Tables 5 & 6, Citizens Brief.
3/ Exh. No. F-13.

Operating Revenues

The only significant difference between the staff's and applicant's revenue estimates relates to Citizens-California's inclusion of revenues from an extension of its service area along Highway 9. This extension was authorized in November, 1970 and was completed in early 1971. It includes about eighty customers. Applicant was authorized to invest its own funds in order to establish this extension because it anticipated larger than normal revenues from these customers.

Applicant contends that the extension should be included for rate-making purposes because it has been completed before conclusion of the hearing. The staff objects to inclusion on the ground that it would be a burden to the existing ratepayers since the actual cost of the extension was much more than originally estimated. The result would be subsidization of the extension by the existing customers. The staff position is reasonable at this time since the eighty customers included in the extension have not contributed to paying for it. Applicant's costs involved in this extension should be recovered from the expanded revenues it anticipated when it requested authority to deviate from the normal extension rule. This adjustment also affects operating and maintenance expenses, depreciation expense, taxes, and rate base.

Applicant and the staff disagree as to the annual usage and number of customers in the district. The dispute regarding consumption results from differences in estimating the effect of rainfall on water sales for the Felton area. The staff method is preferable and will be adopted because it relies on the closer weather station point of Ben Lomond. The staff estimate of 989 customers, which is less than applicant's is adopted because it is more conservative.

Operation and Maintenance Expenses

The applicant's estimates of the operation and maintenance expenses exceed those of the staff at present rates by $703, of which $502 results from the exclusion of the Highway 9 extension. The balance represents reduced electric power expense which results from the downward trend in the unit cost of power in relation to the quantity of water pumped.

Except with regard to the Highway 9 extension, applicant apparently does not oppose the staff's position. The estimate as calculated by the staff is adopted.

Administrative and General Expenses

The applicant and the staff differ in their estimates of these expenses in the amount of $3,008 as follows:

	Applicant's Estimate Exceeds Staff Estimate
Mutual Service Accounts	$1,617
Common Plant Expenses	38
Legal and Regulatory Expenses	1,070
Welfare and Pensions	283
Total Administrative & General Expense - Difference	$3,008

The primary dispute between the applicant and the staff relates to the allowance of expense for managerial and executive services from Citizens-California's headquarters at Redding and from Citizens-Delaware's headquarters at Stamford, Connecticut. The issues raised by the difficulty of determining appropriate allocations of these mutual expenses to specific water districts of the applicant for rate-making purposes were discussed in detail in the Commission's recent decision regarding the rate increase application for operations in the Guerneville District of Citizens-California. (Decision No. 76996, dated March 24, 1970 in Application No. 48905, hereinafter referred to as Guerneville decision.)

The staff maintains that the Guerneville decision's methodology should be followed unless the applicant justifies a revision by clear and convincing new proof. The staff also points out that it and the applicant are discussing other possible solutions to this problem, and that given the recent date of the Guerneville decision it should be followed.

As a consequence the staff's allowance for these mutual service expences adheres to the Guerneville approach with two adjustments: (1) the staff has included in the allowance for Stamford mutual service expense the salary cost for two assistant vice-president positions which were not allowed in the Guerneville decision because they were vacant; and (2) the staff has allowed certain engineering salaries that were disallowed in Guerneville.

Applicant, on the other hand, contends that an allowance should be accepted for the salary and expenses of Citizens' chief executive officer. It argues that Felton and California consumers have directly benefited from his unique services, as well as from those performed by other Stamford personnel. Citizens is particularly critical of the staff's allocating only $6,157 to Felton for all mutual service, which is mostly accounting and engineering services, provided by both Stamford and Redding. It contends that if Felton was a separate company this amount of expense would not cover the annual cost of a bookkeeper and secretary, including normal employee benefits.

The staff has completely disallowed any portion of salary expense for the chief executive officer in the operating costs of the Felton district. This officer was formerly president of Citizens and is now its chairman of the board. The staff has allowed salary expense, based upon the actual salaries paid as of October 15, 1970, for the services of Citizens' new president, whose title formerly was executive vice-president and chief operating officer, its treasurer and three assistant vice-presidents. (Tr. 549.) In applying this one disallowance the staff followed the Guerneville decision, in which the Commission disallowed any such salary expense because the information as to the amount and value of time devoted by the chief executive officer to the problems of the Guerneville water district was too vague to permit a reasonable allocation of his salary for rate-making purposes. (Decision No. 76996, pp. 39-40 mimeo.) Applicant's witness testified that there has not been any substantial change in the chief executive officer's duties since the Guerneville proceeding. (Tr. 551.) We agree with the staff that the Guerneville decision should be followed in light of the absence of new evidence on this question, the appointment of a new president of Citizens-Delaware, and the discussions now taking place between the applicant and the staff to resolve the mutual service question.

Applicant disputes one adjustment by the staff for mutual services provided by the Redding office, i.e., by Citizens-California. This adjustment relates to the salary of a water engineer hired in 1970. The staff included $2,000 of the $3,824 actually paid to this engineer during 1970. The staff witness agreed, however, that this engineer works only on water operations and that his salary should be charged to water operations. (Tr. 314-18.) Inclusion of the operating expense portion of the engineer's annual salary of $8,000 to the water properties in California results in $333 of additional operating expenses allocated to the Felton district. Although the test year is 1970 and the engineer was employed for only one quarter of that year, applicant's position is reasonable and will be adopted.

The staff has disallowed $1,070 for legal and regulatory expenses. The disallowance is derived by reducing the expense of the senior counsel from the four days of hearing initially estimated at Santa Cruz to two days, by deleting all expense for the associate counsel, and by reducing transcript expense and the number of man days of per diem expense for Stamford personnel. The staff did allow for associate counsel during the days of hearing at San Francisco.

Applicant argues that these disallowances are unreasonable on the ground that an associate counsel is needed to assist in preparing testimony, exhibits, cross-examination and briefs. It also maintains that two transcripts are necessary. Since the Felton hearing was not lengthy or complex, nor did it involve a large number of witnesses, the staff's position is reasonable and will be adopted.

Taxes Other Than Income

The applicant's estimate for ad valorem taxes is almost $9,000 above the revised figure derived by the Commission staff. The staff's estimate is based upon the recorded ad valorem taxes for 1970, and it excludes any allowance for the additional plant involved in the Highway 9 extension. However, it does include an increase of $1,145 from its original estimate of this item. The staff also made a small disallowance for an overstatement of these taxes.

The applicant, on the other hand, has included in its estimate of ad valorem taxes the 1971 additions to plant it seeks to have included in the 1970 test year and an adjustment for future tax increases which may occur during 1971, including one resulting from the rate increase anticipated herein. The staff study determined, however, that the State Board of Equalization's assessed value of applicant's operative property has been reduced the past two years in order to achieve the required assessment ratio of 25 percent of market value, but that, on the other hand, Santa Cruz County's tax rate has been increasing. The result, according to the staff, is that the applicant's tax is being reduced on a per dollar market value of plant basis. Tax expense should reflect as nearly as possible actual taxes paid during the test year. Adjustments for future tax changes are speculative and uncertain. Therefore, the staff position will be adopted.

Income Tax

The staff's calculation of income tax is computed on an as-paid basis which Citizens accepted during the hearing (Tr. 914). Under this method the staff calculated Felton's 1970 share of income tax expense to be $1,077.

Depreciation Expense

The applicant's claimed depreciation expense exceeds the staff's revised estimate by $2,265. The staff added $904 to its original estimate of this expense in recognition of additional plant added in 1971. The remaining difference results because applicant has included 1971 additions in its plant which have been excluded by the staff as discussed above. These 1971 additions were rolled back into 1970 in the applicant's calculation and assumed to have been installed as of the beginning of the test year. During the hearing Citizens accepted a reduction of $572 in its estimate of this expense item for reclassification by the staff of a building from pumping plant structures to general plant structures. (Tr. 914.)

For the reasons set forth above in our discussion of the Highway 9 extension, the staff's estimate of depreciation expense will be adopted.

Rate Base

There is a difference of $80,177 in the staff's and applicant's computations of average depreciated 1970 rate base. In the staff's original study this difference was $122,735, but during the hearing it decided to recommend that the Commission include in rate base additions to plant actually installed in 1971 by the time the application was submitted and which result in improved service. This recommendation was based on the fact that 1970 was adopted as the test year in order to eliminate the delay which would have occurred if 1971 had been utilized. The staff indicated that its position is an exception to its usual position in this regard, and that a lack of consideration of known improvements would have been unfair to the applicant under these circumstances. These additions amount to an increase of $45,381 in net plant for the Felton district and $904 for related depreciation expense.

The major portion of the amount excluded by the staff, $71,660, consists of the new plant involved in the Highway 9 line extension as discussed in this opinion above. The remainder of the staff exclusion relates to allowances for working cash, including minimum bank balances.

The applicant included $2,524 for working cash. The staff allowed zero working cash on the basis that since the rate structure includes a bimonthly or annual charge payable in advance, some $18,510, or about 24 percent of Felton's gross operating revenue, is paid in January by customers who pay this charge in advance for a 12-month period.

Furthermore, applicant's calculation of a working cash allowance includes non-interest bearing minimum bank balances required in order that Citizens-Delaware can obtain short-term bank financing at the prime rate. Applicant cites cases in other jurisdictions where inclusion of such balances in the allowance for working cash has been permitted. Citizens urges that such balances are a cost of doing business which permits it to acquire prime rate financing. The banks in which these deposits are held include Midland Marine Bank of New York, Chemical Bank of New York, Bank of Hawaii, and the Bank of America. The short term borrowings are utilized by Citizens-Delaware for such purposes as construction or tax payments, and other general corporate purposes.

The staff objects because Felton receives necessary operational working cash through advance payments for service and that deposits in out-of-state banks are not directly related to the day-to-day operations of the district. Felton does not itself make any short term borrowings. The staff argues that although it normally includes an allowance in rate base for working cash in order that investors may be compensated for moneys which they have supplied over and above their investment in plant so that the utility can pay its bills pending receipt of revenues, no such allowance should be permitted in this case because the rate schedule calls for bimonthly or annual rates payable in advance. As a result the ratepayer provides more cash in advance of receiving service than is required to meet the applicant's expenses. The staff cites the last two rate proceedings involving Citizens' Boulder Creek District, in which the Commission refused such an allowance. (Decision No. 57177, dated August 14, 1958 in Application No. 39674; and Decision No. 66729, dated January 28, 1964 in Application No. 45164.) It also appears that a similar disallowance was applied in the Guerneville decision. (See Decision No. 76996, pp. 45-6.) Therefore the Commission's prior position will be adhered to.

We find that the applicant's average depreciated rate base for the 1970 test year is $241,900. We find this rate base to be reasonable.

We find that the applicant's results of operations for the 1970 test year at present and proposed rates are as follows:

	1970	
	Present	Proposed
Revenues	$ 69,113	$101,590
Expenses		
Oper. and Maint.	29,100	29,225
Adm. and General	11,389	11,560
Depreciation	7,343	7,343
Taxes other than Income	9,285	9,285
Income Taxes	905	17,523
Total Expenses	$ 58,022	$ 74,936
Net Oper. Revenue	11,091	26,654
Rate Base	241,900	241,900
Rate of Return	4.58%	11.02%

Rate of Return

A public utility is constitutionally entitled to an opportunity to earn a reasonable return on its investment which is lawfully devoted to the public use. It is a percentage expression of the cost of capital utilized in providing service. Within this context, a fair and reasonable rate of return applied to an appropriately derived rate base quantifies the earnings opportunity available to the enterprise after recovery of operating expenses, depreciation allowances and taxes.

Ultimately, the rate of return determination in this proceeding must represent the exercise of informed and impartial judgment by the Commission, which must necessarily give equal weight to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return. Such balancing of interests is directed toward providing water consumers with the lowest rates practicable, consistent with the protection of the utility's capacity to function and progress in furnishing the public with satisfactory, efficient service and to maintain its financial integrity, attract capital on reasonable terms and compensate its stockholders appropriately for the use of their money.

Citizens contends that based on its study an appropriate range for its rate of return is between 9.3-11.5 percent. It concludes from this study the return should be at least 10 percent. This results in a return on common equity in the range of 12 to 14 percent, which Citizens asserts is required by the upward trend in bond yields.

Citizens' rate of return witness, Mr. Jack Sanders, who is its rate manager, presented a study which includes an analysis and summary of the Federal Reserve Bank discount rate, yields on U.S. long term bonds, yields on corporate bonds, the prime rate, the return on various utility common stocks, and the average annual return on Moody's 125 industrial common stocks.

In recommending a rate of return no lower than 10 percent Citizens maintains that for rate of return purposes it is most comparable with a group of combination gas and electric utilities whose median return on equity was 12.54 percent during 1965-69 and 12.20 percent during 1970. (Exhibit No. 10, Table 3 and Exhibit 11.) It urges that utility investors should be offered "investment opportunities comparable with those available among the industrials". (Citizens' brief, p. 23.) It also points to recent decisions by the Commission involving California water utilities in which it has authorized rates of return which result in returns on equity ranging from 11.25 - 11.75 percent.

The Commission staff maintains that a reasonable rate of return for Citizens is between 7.6 and 7.9 percent. This will result in a return on equity between 8.39 and 8.93 percent. The staff states that its recommendation is based upon: (1) the effective interest rate on long term debt of 6.61 percent for Citizens (Exhibit No. 10, Table 2); (2) recognition of Citizens' conservative and less risky capital structure, consisting of an equity ratio of 55 percent and (3) an allowance for return on equity which is consistent with recent decisions and prevailing economic conditions.

The staff criticizes Citizens study on the ground that it overemphasizes current cost of debt, and de-emphasizes Citizens lower imbedded cost of debt. It argues that no definite long-term trend regarding interest rates can be ascertained under present economic conditions. Furthermore, the staff disputes applicant's exclusion of its low cost REA Notes from consideration of its effective interest rate.

After evaluating the rate of return evidence and testimony, the Commission concludes that the staff's recommended range is more reasonable. Citizens' rate of return request is high in that it seeks a return on equity equivalent with industrial companies. On cross-examination its witness admitted that considering Citizens high equity capital structure and using its imbedded cost of debt in place of the current cost of debt at the time of hearing, its return on equity would be in the range of 15.8 to 16.6 percent. (Tr. 561-3.) This level of equity return is superior to that of many industrial companies in today's highly volatile economy. Comparison of industrial companies returns on equity with water utilities' returns is inappropriate since the former are in the high risk sector of the economy. Water utilities, on the other hand, deal in a basic commodity without competition and their rates are protected by public utilities commissions. Consequently they are a less risky investment than industrial companies, and a lower return is normally expected and accepted by the investment community. (See App. So. Calif. Edison Co., Decision No. 78802, dated June 15, 1971, in Application No. 52336.)

The Commission further agrees with the staff that considerable weight should be given to the fact that Citizens capital structure is less risky than most utilities in that its 55 percent equity ratio is well above the common utility level of 40 percent. Moreover the strength of its financial position is well demonstrated by its dividend distribution record. According to its 1969 Annual Report, the most recent available in the record, Citizens increased its annual dividend distribution in 1969 for the 24th time in the past 24 years. The effective dividend rate was $1.10 per share, an increase of 8 percent over the 1968 dividend rate. Finally, the exclusion by Citizens of its two percent REA Notes from its study is unreasonable. All debt should be considered in determining the effective interest rate. After considering all the evidence, including the current lower interest rates, and recognizing the fact that the approved rates will not become effective until 1972, we conclude that a 7.7 percent rate of return is fair and reasonable. This produces an 8.57 percent return on common equity.

Applying this return to the 1970 estimated rate base of $241,900 produces net operating revenues of $18,626, or an increase of $7,535 over those at present rates. Therefore, gross revenues will be increased to $84,750, resulting in a 22.6 percent increase in revenues.

Quality of Service

According to the staff's study, there were no significant customer complaints regarding service or water quality during 1967, 1968, 1969 or 1970. Several customers expressed disagreement with applicant's rate increase application at the hearing, but there were no complaints regarding service.

Rate Spread

Applicant's tariff presently includes a service establishment charge of $4.00 "for each establishment or reestablishment of water service". The staff states that this charge is inconsistent with General Order No. 103. The staff recommends that this charge be limited to reestablishment of service to the same customer. This request will be granted.

Findings of Fact

The Commission finds that:

1. Citizens-California (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water service in its Felton District to approximately 900 customers.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1970 reasonably indicate the results of applicant's operations for the future.

3. Applicant's rate of return for the 1970 test year is 4.58 percent. It is in need of additional revenues, but the proposed rates set forth in the application are excessive.

4. A rate of return of 7.70 percent on the adopted rate base for the year 1970 and return on common equity of 8.57 percent is reasonable.

5. 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 unjust and unreasonable for the future.

The Commission concludes that the application should be granted to the extent herein set forth, and in all other respects it should be denied.

O R D E R

IT IS ORDERED that:

1. Citizens Utilities Company of California is authorized to file for its Felton Water District the revised schedules of general metered service attached to this order as Appendix A, and concurrently to cancel its present schedule for general metered service. Such 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 schedule shall apply only to service rendered on and after the effective date thereof.

2. The rates authorized in Appendix A attached to this order meet the criteria established by the Price Commission of the United States in Section 300.16(e), (1)-(6) of Part 300 of Title 6 of the Code of Federal Regulations, as set forth below:

a. The former rates, or prices, are set forth on page 3 of the opinion, supra. The new rates, or prices, are set forth in Appendix A attached to this order. The percentage increase in gross revenues produced by the new rates is 22.6 percent above the gross revenues adopted for the test year.

b. The dollar amount of increased gross revenues provided by the rates authorized herein is $15,637. The dollar amount of increased net operating revenues provided by the rates authorized herein is $7,535.

c. The amount the increase in net operating profit will increase the applicant's profits as a percentage of its total sales is 10.9 percent.

d. The increase in the applicant's overall rate of return on rate base is 3.12 percent.

e. Sufficient evidence was taken in the course of the proceedings held herein to determine that the criteria set forth in Section 300.16(d), (1)-(4) of Part 300 of Title 6 of the Code of Federal Regulations are met by the rate increase authorized by this order. The rates authorized herein meet these criteria because the record demonstrates that under the costs of operating its business during the 1970 test year, as adjusted by the Commission's decision herein, and under the rates last authorized by this Commission in Decision No. 68706, dated March 9, 1965, in Application No. 45164, the applicant's rate of return for the test year is 4.58 percent. This level of return is less than the minimum rate of return needed to attract capital at reasonable costs and not impair the credit of applicant.

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

Dated at San Diego, California, this 8th day of FEBRUARY, 1972.

William Symons Jr.
Chairman

Thomas L. Sturgeon

Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. FE-1

Felton Tariff Area

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Felton and vicinity, Santa Cruz County.

RATES

Monthly Quantity Rates:	Per Meter Per Month
First 5,000 cu. ft., per 100 cu. ft.	$ 0.47
Over 5,000 cu. ft., per 100 cu. ft.	0.40

Annual Service Charge:	Per Meter Per Year
For 5/8 x 3/4-inch meter	$ 36.00
For 3/4-inch meter	55.00
For 1-inch meter	88.00
For 1-1/2-inch meter	147.00
For 2-inch meter	235.00
For 3-inch meter	440.00
For 4-inch meter	650.00

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

Service Re-establishment Charge:

For each re-establishment of water service .... $ 4.00

(Continued)

Schedule No. FE-1

Felton Tariff Area

ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The opening bill for general metered service shall be the established annual service charge. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three hundred sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the billing year, to pay a prorated service charge in advance on a bimonthly basis equal to one-sixth of the annual service charge.

2. The service re-establishment charge provided for herein is in addition to the charges calculated in accordance with this schedule and will be made each time an account is reopened for a customer at the time water service is to be restored after discontinuance at that customer's request.