

ORIGINAL

Decision No. 81870

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
San Gabriel Valley Water Company
for authority to increase rates charged
for water service in its Fontana Water
Company Division

Application No. 53582
(Filed September 12, 1972;
amended December 7, 1972)

John E. Skelton, Attorney at Law,
for applicant.
Eugene Schutten, for Fontana Fire
District; W. A. Thomlee, Darleen
Garrett, Eldan Hobart Mitchell,
Arlene M. Hess, William P. Hess,
Willis G. Davis, Jr., Farris D.
Ferguson, Alex Stokes, I. Sheinman,
Clifford L. Kelsoe, and James
Gaskin, for themselves; protestants.
Henry F. Rager and Dennis A. Bright,
Attorneys at Law, and Joseph Rowe,
for City of Fontana; John A. Holley,
for North Fontana; and Donald D.
Talley, for himself; interested parties.
Elmer J. Sjostrom, Attorney at Law,
H. G. Scheibe, and Robert C. Durkin,
for the Commission staff.

O P I N I O N

San Gabriel Valley Water Company (applicant) seeks authority to increase its rates for general metered and private fire protection service in its Fontana Division (division) by approximately \$399,100 per year. Based on its estimates of operations for the year 1973, this would be an over-all increase of approximately 27 percent. No change is proposed in applicant's rates for public fire protection service.

Public hearings were held before Examiner Rogers in Fontana on March 28 and May 30 and 31, 1973, the applicant and the staff filed concurrent briefs on July 2, 1973, and the application was thereupon submitted. Prior to the hearing, notice thereof was published and mailed to all consumers as required by this Commission.

Twelve customers appeared as protestants. Nine of these testified. The general tenor of the protests was that the existing rates are higher than the consumers can afford and they must let their lawns and trees die. In addition, a written protest was presented on behalf of approximately 250 water users. We are constrained to remind the customers that the applicant is a private company; it is in business, the owners (stockholders) are entitled to a reasonable return on their investment; and if we deny a reasonable return the California Supreme Court would doubtless reverse us. We do, however, keep the rates as low as possible and still leave the applicant a reasonable return.

Applicant's predecessor, Fontana Domestic Water Company, began operations in the Fontana area in 1924. Applicant assumed these operations in 1945. Through construction of new facilities, and purchase and transfer of existing water systems, growth of the division has been substantial. The following tabulation of active service connections of all types at five-year intervals and at December 31, 1971 illustrates the growth of the division:

<u>Year Ended</u>	<u>Active Service Connections</u>
December 31, 1945	3,651
December 31, 1950	6,942
December 31, 1955	11,156
December 31, 1960	12,547
December 31, 1965	14,280
December 31, 1970	15,468
December 31, 1971	15,492

Functions are carried on principally from an office and shop in Fontana. Areas served are portions of the cities of Fontana and Rialto, as well as adjacent unincorporated territory in the county of San Bernardino.

All water is obtained from the Fontana Union Water Company (Fontana Union), a mutual water company, which secures its water from Lytle Creek surface flow and Grapeland tunnel, wells, and the Chino Basin Municipal Water District.

Through ownership of approximately 4,607 shares of Fontana Union stock the division is entitled to use a constant flow of 1,151.74 miner's inches. During periods of peak use, this basic allowance may be doubled subject to limiting conditions.

Water storage is supplied by Fontana Union and water treatment and boosting are supplied by the division. Water treatment consists of microstraining and diatomaceous earth filtration of gravity waters from Lytle Creek at one point, microstraining of Colorado River water at two points, and chlorination at five points.

Water for distribution is taken by the division at 24 primary and secondary service points, and delivered to three pressure zones by gravity flow and by boosting. Distribution is made to customers through approximately 1,452,000 feet of mains which range in diameter from 2 to 16 inches.

During the period January 1, 1969 to July 31, 1972 gross plant additions in the division totaled \$1,267,991. Since the last general increase in rates major plant additions have included distribution facilities, establishment of joint central control facilities with Fontana Union, and the completion of a new commercial office building.

Applicant alleges that the need to request rate increases at the present time is due to a combination of circumstances, the principal of which is the effect of the substantial increases in major expense items, i.e., in electric power, payroll, and capital costs; and that one of the largest increases has been the increase from 3-3/4 cents to 4 cents per miner's inch hour of water purchased from Fontana Union.

The division's general metered rates became effective July 3, 1970 (Decision No. 77331 dated June 9, 1970 in Application No. 51819) and are compared in the following tabulation with the rates proposed in the application and with those hereinafter authorized:

		Per Meter Per Month		
		<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Authorized</u> <u>Rates</u>
Quantity Rates:				
First	400 cu.ft., or less		\$3.52	\$3.52
First	800 cu.ft., or less	\$3.52		
Next	4,200 cu.ft., per 100 cu.ft..	.225		
Next	4,600 cu.ft., per 100 cu.ft..		.28	.23
Over	5,000 cu.ft., per 100 cu.ft..	.164	.22	.19

Private fire protection service is \$1.00 per inch. This is to be increased to \$2.00 per inch. (Private fire hydrant service will be included in this tariff in the division.)

The amendment to the application contains the applicant's summaries of earnings for the estimated years 1972 and 1973 at present and proposed rates. Staff Exhibit 9 compares the applicant's estimates with the staff's.

The following tabulation compares the applicant's and the staff's estimates for the estimated year 1973:

Item	Applicant		Staff	
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
(Dollars in Thousands)				
Operating Revenues	\$1,476.4	\$1,875.5	\$1,566.1	\$1,995.6
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	677.6	680.2	676.2	678.8
Admin. & Gen. Exp.	187.0	192.6	182.6	188.6
Depreciation Exp.	143.1	143.1	138.9	138.9
Taxes, Except Income	149.1	149.1	138.7	138.7
Income Taxes	40.9	244.0	106.1	327.8
Total Expenses	\$1,197.7	\$1,409.0	\$1,242.5	\$1,472.8
Net Operating Revenue	\$ 278.7	\$ 466.5	\$ 323.6	\$ 522.8
Average Rate Base	\$4,992.8	\$4,992.8	\$4,663.3	\$4,663.3
Rate of Return	5.58%	9.34%	6.94%	11.21%
<u>Operating Revenues</u>				

At proposed rates the staff's 1973 estimate of operating revenues is \$120,100 more than applicant's.

Applicant's operating revenues are obtained principally from metered sales to commercial (including domestic) and industrial customers. Classification of customers is dependent generally on the amount of water consumed, commercial customers being billed on a bimonthly basis and industrial on a monthly basis. Flat rate charges for public and private fire protection service, and miscellaneous water revenues provide the balance of revenues.

Total operating revenues recorded for the past three years are:

<u>Year</u>	<u>Revenues</u>
1969	\$1,320,598
1970	1,483,082
1971	1,441,385

Metered water consumption in hundreds of cubic feet (CCF) for the same years was:

<u>Year</u>	<u>Consumption (CCF)</u>
1969	4,922,653
1970	5,499,741
1971	5,223,830

Average active service connections for the three years were:

	<u>1969</u>	<u>1970</u>	<u>1971</u>
<u>Service Connections</u>			
Commercial	13,922	14,124	14,247
Industrial	114	119	125
Private Fire Protection	29	33	38
Public Fire Protection	<u>870</u>	<u>918</u>	<u>959</u>
Totals	14,935	15,194	15,369

In developing the revenues, both the staff and applicant utilized the Modified Bean Method of adjusting revenues for temperature and precipitation. Applicant, however, combined all classes of customers except five large industrial customers. The staff excluded the five large industrial customers and the remaining customers were divided into those billed monthly or bimonthly and further divided into residential, industrial, and public authority customer classes. Applicant utilized weather data from the Fontana-Kaiser Weather Station. In the division's two most recent general rate proceedings (Decision No. 69489 dated August 3, 1965, in Application No. 46970, and Decision No. 75263, dated January 28, 1969, in Application No. 50291), both applicant and staff used data

from the Fontana-Kaiser weather station. The staff witness testified that recorded temperature data from the Fontana-Kaiser weather station did not correlate with the data from four adjacent weather stations; that recorded precipitation data from Fontana-Kaiser weather station did follow the pattern of the adjacent weather stations; and after analyzing several adjacent weather stations, he selected the San Bernardino County Hospital weather station because the recorded data was continuous relative to temperature and precipitation since 1931.

The Fontana-Kaiser weather station is located within applicant's service area. It is unprotected from the winds which are prevalent in the Fontana area and as a result the recorded temperature data fails to correlate with data from the four adjacent weather stations, which are not located within applicant's service area.

The San Bernardino County Hospital weather station used by the staff is approximately 7-1/2 miles easterly from the nearest exterior boundary of the service area. Its location is such that it receives considerable protection by the mountains from the winds.

The arguments relative to the proper basis for rainfall estimates were long and involved. The staff appears to have done an about-face relative to the location of the proper weather station to be used for the determination of temperature and precipitation. In the last rate proceeding relative to this division (Decision No. 75263, supra), both the applicant and the staff used the Fontana-Kaiser weather station.

We find that the applicant's estimates of revenues for 1973 at present and proposed rates are proper. We find that for the estimated year 1973 the revenues will be \$1,476,400 at present rates and \$1,875,500 at the company proposed rates.

Operating Expenses

Following are comparisons of the applicant's and the staff's estimates of operating and administrative expenses for the estimated year 1973 at present and proposed rates:

Item	Applicant	Staff	Adopted
(Dollars in Thousands)			
Payroll	\$307.7	\$279.7	\$279.7
Water Purchased	314.5	343.0	314.5
Purchased Power	18.9	19.8	18.0
Water Treatment	66.4	61.6	61.6
Other	157.1	154.6	152.8
Total Expenses at Present Rates	\$864.6	\$858.7	\$826.6
Total Expenses at Proposed Rates	\$872.8	\$867.3	\$834.6

Differences between the staff and applicant are:

The staff adjusted the 1971 payroll to reflect the increase of wages actually experienced for the year 1972. Payroll for the estimated year 1973 was determined by increasing 1972 payroll by an amount of 4.8 percent. The staff has reflected the estimated 1973 wage level for both years 1972 and 1973. This wage level has been used to eliminate wage trends in the operating expenses for the test periods of 1972 to 1973. We find the staff's estimate of payroll expense is reasonable and it will be accepted for this decision.

Water quantities purchased were estimated by utilizing water use per customer shown in the statistics related to revenues. Water costs include the water quantity rate of \$0.04 per miner's inch hour and an assessment charge of \$3.50 per share of stock of the supplier, Fontana Union. We find that the applicant's estimates of these items are correct and they will be used for the purposes of this decision.

Power costs are related to the latest effective rate and include a fuel adjustment surcharge effective May 1, 1973. These costs reflect the quantity of water estimated to be sold plus the system's losses as estimated by applicant at 3.23 percent of water sales. This cost is related to the quantity of water sold and as we are accepting the applicant's estimate of revenues we will accept the applicant's estimate of power costs, modified to correct for an error in its calculations.

The quantities of water treated at Sandhill Treatment Plant for the years 1972 and 1973 are estimated by the staff to be 85 percent of sales for each year. Estimated expenses include the chemicals and power required to perform the necessary treatment functions. We will adopt the staff's figure. We find the water treatment expense for 1973 will be \$61,600.

We find that the operating expenses in 1973 will be \$826,600 at present rates and \$834,600 at proposed rates.

Depreciation Expense

The applicant's estimate of depreciation expense for 1973 is \$143,600; the staff's is \$138,900.

The differences in depreciation expense estimates are due to different plant estimates by applicant and staff and applicant's use of 6.0 years remaining life as of December 31, 1970 on its IBM equipment while the staff used 7.6 years based on the "Iowa" curves of probable remaining life.

We find the staff's estimate of depreciation expense is reasonable and it will be used for the purposes of this decision.

Taxes Other Than Income

These include payroll and ad valorem taxes. The following table compares the applicant's and the staff's estimates of such taxes for 1973:

Item	Applicant	Staff
(Dollars in Thousands)		
<u>Ad Valorem Taxes</u>		
Direct	\$127.1	\$117.6
Allocated	4.0	4.0
Total Ad Valorem	\$131.1	\$121.6
<u>Payroll Taxes</u>		
Direct	\$ 14.4	\$ 13.7
Credits	(2.2)	(2.1)
Allocated	5.9	5.6
Total Payroll	\$ 18.1	\$ 17.2
Total Other Taxes	\$149.2	\$138.8

Payroll Taxes - The difference between staff's and applicant's estimates result from:

- Different payroll dollars.
- The staff used 5.85 percent rate for Federal Insurance Contributions Act for both 1972 and 1973, while the applicant used 5.2 percent and 6.0 percent for 1972 and 1973, respectively.

Ad Valorem Taxes - The difference between staff's and applicant's estimates are a result of the staff having later tax data and the differing amounts of estimated utility plant.

We find the staff's estimates of such taxes are reasonable and they will be used for the purposes of this decision.

Income Taxes

Using the foregoing figures, we find income taxes for 1973 will be \$75,800 at present rates and \$281,800 at the proposed rates.

Rate Base

The following table compares the applicant's and the staff's 1973 estimated rate bases:

<u>Average Components</u>	<u>Applicant</u>	<u>Staff</u>
	(Dollars in Thousands)	
<u>Utility Plant</u>		
Fontana Direct	\$6,950.7	\$6,716.2
Allocated	159.0	159.5
CWIP(a)	9.0	9.0
Total Plant	7,118.7	6,884.7
Reserve for Depreciation	1,633.6	1,629.4
Net Utility Plant	5,485.1	5,255.3
Materials & Supplies	37.6	37.8
Working Cash	132.6	132.6 (c)
Water Stock Adjustment	123.3	-(b)
Subtotal	5,778.6	5,425.7
Less:		
Advance for Construction	394.4	356.0
Contributions	392.4	338.8
Subtotal	786.8	694.9
Average Rate Base	4,991.8*	4,730.8*

(a) Construction work in progress.

(b) Not included by staff.

*May not balance due to rounding.

(c) Revised

The major differences are:

a. Utility Plant - For 1972, the staff used recorded data of plant installed and under construction as compared to applicant's earlier estimate and for 1973, the staff estimated a lower level of installations than applicant.

b. Working Cash - The staff and the applicant agreed on the working cash.

c. Contributions - The difference in contributions is a result of applicant using gross contributions instead of net contributions.

d. Water Stock Adjustment - Commission Decision No. 57326 dated September 10, 1958, in Applications Nos. 39864, 39865, and 39866, found that assessment payments in excess of actual cost of operation of Fontana Union should be considered for rate making purposes as additional rate base investment rather than operating expense. The finding was reaffirmed in Decision No. 64574 dated November 27, 1962 in Application No. 44053; Decision No. 69489 dated August 3, 1965 in Application No. 46970; and Decision No. 75263 dated January 28, 1969 in Application No. 52091.

The Commission in Decision No. 75263 added \$562 to the staff's estimated rate base of \$122,700 for the total sum of \$123,262 to be included in the rate base. The modification of rate base for adjusted 1971 and estimated 1972 is \$123,262.

Applicant obtains all of its water supply from Fontana Union. Stock ownership is a condition to purchase of water. In order to assure the availability of an ample supply of water to meet the requirements of its customers, applicant is required to, and does, own a substantial number of shares of the mutual company. The cost of water is paid by stockholders in two ways, namely, by water rates per inch-hour for water used and by assessments levied

on the stock, usually twice a year. From 1964 to April 30, 1972, the water rate was 3-3/4 cents per miner's inch hour. Since May 1, 1972, the rate has been 4 cents per miner's inch hour. For a number of years until 1968 the assessments of \$7 per share per year had totaled \$105,000 on the outstanding 15,000 shares. In 1968 assessments amounted to only \$3.50 per share, or \$52,500 total, and, except for one year, this rate has continued through 1972.

In Decision No. 45024 dated November 21, 1950, in Application No. 30341, involving rates in this division, the entire assessment paid by applicant to the mutual was treated as a cost of water in the year paid. In Decision No. 57326 the Commission, for rate making purposes, disallowed 48.35 percent of the annual mutual company assessments which applicant was obliged to pay on shares owned by it. Concurrently, the Commission allowed, as an offsetting rate base modification, an amount representing the excess of expense disallowances over income tax savings.

Subsequently, the Commission disallowed substantial portions of the mutual assessments and allowed offsetting rate base modifications in Decisions Nos. 64574, 69489, and 75263. The rate base modification found to be reasonable in the last decision was \$123,262.

Both the applicant and the staff agree that the mutual has experienced losses over and above assessments in recent years. Under these conditions, both the applicant and the staff agree that the allowable assessment expense to applicant should be no greater than the assessments it pays even though the established Commission precept would require the allowance of an expense substantially greater than the assessments.

Applicant believes it is entitled to continue the rate base modification reflecting the rate base investment earned by the company during the last fifteen years, in the form of reduced revenues authorized by the Commission. We agree.

We find that the applicant is entitled to and should include \$123,262 in its rate base as hereafter authorized.

We find applicant's rate base for 1973 will be \$4,854,100.

We find that applicant's results of operation for the estimated year 1973 at present and proposed rates will be as follows:

Adopted Summary of Earnings

Item	Year 1973 Estimated	
	Present Rates	Proposed Rates
Operating Revenues	\$1,476,400	\$1,875,500
Operating Expenses	826,600	834,600
Depreciation Expense	138,900	138,900
Taxes, Except Income	138,700	138,700
Income Taxes	75,800	281,800
Total Expenses	\$1,180,000	\$1,394,000
Net Operating Revenues	\$ 296,400	\$ 481,500
Rate Base	\$4,854,100	\$4,854,100
Rate of Return	6.11%	9.92%

Rate of Return

Applicant's rate manager and internal auditor testified relative to the required rate of return. He said that applicant is requesting a rate of return (on rate base) of 9.35 percent and that this equates to a return on common stock equity of 17.05 percent based on the staff's capital ratios (Table 9, Exhibit 8). The witness said "We furnished all the data necessary to the staff in preparation of Exhibit 8; and we have checked all the data set forth in Exhibit 8 and except for the possible, except for the recommendation as to the rate of return, all factual data set forth in that exhibit, we agree with it."^{1/}

The capital ratios set forth in the staff Exhibit 8 are:

Long-term Debt	59.41 percent
Preferred Stock	6.99 percent
Common Stock Equity	<u>33.60 percent</u>
Total	100.00 percent

The staff financial witness recommended a rate of return of 7.70 percent on rate base which equated to approximately 12.2 percent return on common stock equity. He said the earnings allowance for common stock equity is necessarily a judgment figure based on many considerations, some of which are: (a) comparative earnings of other water utilities; (b) authorized rates of return; (c) capital structure and imbedded costs; (d) financial requirements for construction and other purposes; (e) the amount of funds available from advances, contributions, and other sources; (f) balancing of consumer interests with the benefits accruing to the investors in the company because it is essential that the rate of return be equitable for consumers as well as investors; and (g) the general economic climate.

^{1/} Transcript Volume 2, page 119.

The witness did not allow for attrition. The basis for this attitude appears to be based on the fact that the staff calculated an upward trend in rate of return 1972 to 1973 of approximately .3 percent. The applicant on the other hand shows a declining rate of return of approximately the same (Exhibit 9).

Adopted Results

We find a reasonable rate of return for applicant is 7.7 percent for the future which will produce a return of approximately 12.2 percent on common equity with the indicated decline in rate of return of .30 percent per year. The increased rates authorized herein should produce an average rate of return of 7.70 percent for the next three years.

Based on the above, the applicant is entitled to an increase in gross revenues of \$198,300 instead of its requested increase of \$399,100.

Findings

1. During the test year 1973 applicant's revenues will be \$1,476,400 at present rates and \$1,875,500 at its proposed rates.
2. For the test year 1973 applicant's operating and maintenance expenses, including administrative and general expenses and regulatory Commission expenses, will be \$826,600 at the present rates, \$834,600 at the proposed rates, and \$830,600 at authorized rates.
3. For the test year 1973 applicant's depreciation expense will be \$138,900.
4. For the test year 1973 applicant's non-income taxes will be \$138,700.
5. For the test year 1973 applicant's income taxes will be \$75,800 at present rates, \$281,800 at proposed rates, and \$178,200 at authorized rates.
6. For the test year 1973 applicant's rate base will be \$4,854,100.

7. Using the foregoing adopted figures, applicant's test year net revenue will be \$296,400 at present rates, \$481,500 at proposed rates, and \$388,300 at authorized rates.

8. Using the adopted figures applicant's 1973 rate of return will be 6.11 percent at present rates, and 9.92 percent at proposed rates, which is excessive.

9. Applicant is in need of rate relief.

10. A rate of return of 7.7 percent is reasonable and applicant should be permitted to file rates and charges which will give it an average of such a rate of return over the next three years. Rates and charges during the test year 1973, in the amount of \$1,674,700, which will give applicant a return of 8 percent, should provide such a return. It is estimated that the 7.7 percent rate of return will provide applicant with a return on common equity of 12.2 percent.

11. We find that the increases in rates and charges authorized by this decision are justified and are reasonable; and that the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusion

Based on the foregoing findings, the Commission concludes that the application should be granted in part and denied in part and that applicant should be authorized to file a schedule of rates in accordance with Appendix A attached hereto.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant, San Gabriel Valley Water Company, is authorized to file the revised rate schedules attached to this order as Appendix A, and to re-file presently effective rate schedules Nos. AA-4 and AA-4H to be applicable only within the Whittier Division. Such filing shall comply with General Order No. 96-A. The effective

dates of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

San Francisco
Dated at _____, California, this 12th
day of SEPTEMBER, 1973.

William J. Quinn President
William E. Quinn
Vernon L. Sturgeon
Edward J. Quinn Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. FO-1

Fontana Division

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Fontana, Rialto, and vicinity, San Bernardino County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 400 cu.ft., or less	\$ 3.52	(I)
Next 4,600 cu.ft., per 100 cu.ft.23	(I)
Over 5,000 cu.ft., per 100 cu.ft.19	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.52	
For 3/4-inch meter	4.20	(R) ✓
For 1-inch meter	5.55	
For 1-1/2-inch meter	9.00	
For 2-inch meter	12.85	
For 3-inch meter	22.20	
For 4-inch meter	34.00	
For 6-inch meter	94.00	
For 9-inch meter	159.00	
For 10-inch meter	242.00	(R)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

APPENDIX A
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Schedule No. FO-4

Fontana Division

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of the Cities of Fontana, Rialto, and vicinity, San Bernardino County.

RATE

Per Service
Per Month

For each inch of diameter of fire protection service \$2.00 (I)

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of the fire protection service.
2. The fire protection service shall be installed by the utility or under the utility's direction and shall be the sole property and subject to the control of the utility, with the right to alter, repair, replace and the right to remove upon discontinuance of service.
3. The minimum diameter for fire protection service will be 4 inches. The maximum diameter shall not be larger than the diameter of the water main to which the fire protection service is attached unless said main is circulating, in which case with the approval of the utility the maximum diameter may be larger by not more than 2 inches than the diameter of said circulating main.

(Continued)

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Schedule No. FO-4

Fontana Division

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Continued

4. If a water main of adequate size is not available adjacent to the premises to be served, then a new main from the nearest existing main of adequate size will be installed by the utility at the cost of the customer. Such cost shall not be subject to refund.

5. The fire protection service facilities will consist of a detector check valve, or other similar device acceptable to the utility which will indicate the use of water, and related piping and fittings. At the option of the utility, the facilities may be located within the customer's premises or within public right of way adjacent thereto. Where located within the premises, the utility and its duly authorized agents shall have the right of ingress to and egress from the premises for all purposes related to said facilities.

6. No structure shall be built over the fire protection service and the customer shall maintain and safeguard the area occupied by the service from traffic and other hazardous conditions. The customer will be responsible for any damage to the fire protection service facilities resulting from the use or operation of appliances and facilities on customer's premises.

7. Subject to the approval of the utility, any change in the location or construction of the fire protection service as may be requested by public authority or the customer will be made by the utility following payment to the utility of the entire cost of such change.

(Continued)

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Schedule No. FO-4

Fontana Division

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Continued

8. The customer's installation must be such as to separate effectively the fire protection service from that of the customer's regular domestic water service. Any unauthorized use of water through the fire protection service will be charged for at the applicable tariff rates and may be grounds for the utility's discontinuing fire protection service without liability.

9. There shall be no cross-connection between the system supplied by water through the utility's fire protection service and any other source of supply without the specific approval of the utility. The specific approval, if given, will at least require at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any unauthorized cross-connection may be grounds for immediately discontinuing fire protection service without liability.

10. The utility will supply only such water at such pressure as may be available from time to time as a result of its operation of the system. The customer shall indemnify the utility and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claims against the utility for any loss or damage resulting from service hereunder.