

Decision No. 85335

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 DEL ESTE WATER COMPANY, a  
 corporation,  
 for an order authorizing it to  
 increase rates charged for water  
 service.

Application No. 55202  
 (Filed September 25, 1974;  
 amended February 27, 1975  
 and June 16, 1975)

McCutchen, Doyle, Brown & Enersen, by Crawford  
 Greene, Attorney at Law, for applicant.  
Cyril M. Saroyan, Attorney at Law, James M. Barnes,  
 and Theodore Cheek, for the Commission staff.

O P I N I O N

Duly noticed public hearings were held in this application at Modesto and San Francisco before Examiner Thompson on August 26, 27, 28, and 29, 1975, and the matter was taken under submission. By Decision No. 84409 dated May 6, 1975 in this application, Del Este Water Company was authorized on an interim basis to increase its water rates by 6.7 percent to provide additional revenues of \$63,627. By this amended application applicant seeks authority to increase its rates by an additional 30 percent to provide additional revenues of \$308,660.

Del Este Water Company, a corporation, is a wholly owned subsidiary of Beard Land and Development Company, a holding company. Other wholly owned subsidiaries of the parent are Modesto and Empire Traction Company, a short-line railroad corporation, and Modesto Interurban Railway. Modesto and Empire Traction Company, in turn, owns Beard Land Improvement Company and Industrial Land Development Company. The stockholders of the parent and the officers of the subsidiaries and affiliates are members of the Beard family comprising over 100 descendants of a pioneer of Stanislaus County.

Applicant is engaged in the business of the supply and distribution of water for domestic and industrial purposes in the suburban Modesto area and in portions of the communities of Waterford, Empire, Salida, Turlock, Hillcrest, Hickman, and Grayson. Its service areas are interspersed in an area with a perimeter of about 100 miles within which water for domestic use is also distributed by the cities of Modesto and Turlock. Water service for agricultural use on acreage within and adjacent to applicant's service areas is provided by privately owned wells, the Modesto Irrigation District, or the Turlock Irrigation District. Some large industrial firms within applicant's service area meet the major part of their process water requirements with water from private wells. There has been no adjudication of the underlying ground water basins.

Applicant's plant consists of fourteen independent water works systems. For operational purposes it has divided its service areas into ten zones. Applicant supplies its customers from 69 wells located in its service areas. With a few exceptions, each of the isolated water works systems is served by two or more wells. On December 31, 1973 applicant had 980,494 feet of mains of which 92.5 percent were of four-inch or greater diameter. Applicant has no reservoirs or other storage facilities. Well pumps are driven by natural gas engines or electric motors, either at a fixed speed or at a variable speed through torque converters. All are controlled so as to maintain an average pressure of 50 psi in the mains. The distribution system pressure at 27 strategically located points is telemetered over leased telephone lines to recording pressure gauges in the company's office.

Applicant's water service is very good. Very few service complaints have been made and applicant has corrected reported service inadequacies with reasonable dispatch. The principal operating problems encountered by applicant result primarily from sand entrained

in the well water, relatively high nitrate content of water from ten wells, hardness of water in some areas, and old and undersized mains in portions of systems acquired from predecessors. Most of the wells have been equipped with sand traps or sand eradicators, and removal of sand from the distribution system is accomplished by regularly flushing the mains at approximately 200 points on the system. The State Department of Public Health has been making frequent tests of the water, particularly at the ten wells where nitrate content is reportedly high. Action by applicant will depend upon the ultimate findings and conclusions of the Department of Public Health. Applicant has a main replacement program and has budgeted funds in that regard.

In 1971 applicant engaged an engineering consulting firm to analyze its systems and operations and make recommendations for the orderly expansion and improvement of the systems. The result of the analysis was to recommend an improvement program which, if implemented over a five-year period, would result in an average annual investment of \$154,000. Applicant has used that report as a basis for budgeting annual capital expenditures for replacements and improvements. It has added additional improvement items such as two new wells which would augment the supply in Zone 7.

Applicant's preliminary budgets for plant improvements and additions call for expenditures of \$208,300 in 1975, \$212,300 in 1976, and \$222,300 in 1977. Some of the improvements budgeted for 1975 have been accomplished even though conditions of cash flow necessitated suspending a portion of the improvements program during part of this year.

Applicant employs a staff of 28 persons in management, operations, maintenance, and clerical positions. Much of the construction is performed by company personnel. Outside services are employed for engineering, auditing, tax accounting, and legal counsel. The number of employees has been approximately the same for

the past 15 years. During the early part of that period operating personnel were engaged mainly in construction because of intense growth during that time. Relatively more time is expended currently by those same employees in the repair and maintenance of the expanded systems.

Applicant has both metered and unmetered services. All services over one inch are metered. In 1974 applicant had 1,697 metered services of which 1,595 were to commercial customers, the balance being to industrial and public authority customers. It had 13,472 unmetered services of which 12,675 were to commercial customers and the balance for private and public fire protection. The average annual water usage per metered commercial customer is 420.1 Ccf,<sup>1/</sup> and per unmetered commercial customer is 391 Ccf.

Applicant was first certificated in 1938 to operate a water system. From that time until 1964 it acquired numerous small water systems that now comprise the Del Este Water Company. Its rate structures have been relatively stable. It was authorized to effect general increases in rates in 1951, 1959, and 1970. In 1974 it increased rates to offset increased costs of power, and, as heretofore mentioned, in May 1975 it was authorized to increase rates by 6.7 percent on an interim basis pending further proceedings in this application.

In the past ten years applicant has had net earnings every year. The ratio of earnings to book value ranged from 2.52 percent (1974) to 9.40 percent (1971), with an average of about 6.6 percent. Of the total net earnings of \$691,351 for the ten years applicant paid dividends amounting to \$310,207, approximately 45 percent. The remaining retained earnings have been invested in plant and improvements.

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<sup>1/</sup> Ccf = 100 cubic feet or 748 gallons.

Since 1951 all of applicant's long-term debt financing has been with Pacific Mutual Life Insurance Company secured by a mortgage and deed of trust on the assets of applicant. Under the terms of the deed of trust applicant is prohibited from creating any further long-term debt with another lender. Applicant's chief financial officer testified that officers of Pacific Mutual have informed him that it is not in the market for further lending to water companies in California because it can obtain higher interest rates with quality instruments in other states. He said that it was indicated to him that assuming a slackening of inflation Pacific Mutual may be in a position to provide additional financing by the middle of 1976 provided applicant improves its financial condition. He said that he construed this to mean that in order to receive any favorable consideration for future borrowings applicant's earnings will have to be at least between two and three times interest coverage. The last borrowing by applicant from Pacific Mutual was in 1971 at an effective interest rate of 9.54 percent. Its current loan balance is approximately \$330,000. It has been making short-term borrowings from a bank at an interest rate at one percent above prime. During the past year and a half applicant has borrowed \$185,000 on short-term financing. Some of the short-term borrowings have been at an interest rate of 13 percent.

It is applicant's contention that unless it receives additional revenues from increases in rates it will be unable to obtain capital necessary for the improvements and additions required for a continuance of good water service.

Applicant and staff used the calendar year 1975 as a test year for estimating revenues and expenses under present and proposed rates. Their estimates are based upon mid 1975 expense levels. By present rates is meant the interim rates which were authorized by Decision No. 84409. Both applicant's engineer and the staff's engineers made their estimates well in advance of the hearing in this

proceeding. We have the advantage of time to be able to use hindsight in evaluating their estimates. The engineers are professionally qualified. In making their estimates they necessarily had to forecast or assume future circumstances and conditions of operation based upon the best data available to them at the time they made their estimates. Evidence at the hearing reveals that in some instances the actual circumstances were somewhat different from those assumed. For example, in May applicant's engineer had knowledge that a large industrial customer that historically used great volumes of water during the packing season had drilled its own well. He assumed that water sales to that customer would diminish. During the 1975 packing season (latter part of June through early September) water sales to this customer were continued at historical levels. That circumstance alone affects the validity of applicant's estimates of revenues and expenses. Other circumstances affect the validity of certain estimates by the staff. No purpose would be served here by setting forth their respective estimates and comparing them. We point out, however, that their estimates of many expense items, particularly those not directly related to number of customers and water usage, are very close. We will use the staff's estimates as a basis for considering reasonable estimates of revenues and expenses for the test year only because its forecasts of customers and metered water sales more closely reflect operating conditions during the first nine months of 1975, and its estimates include adjustments to eliminate certain recorded expenses, including donations and general officers' travel, which should not be allowed for ratemaking purposes. Such disallowances were not contested by applicant.

Water Sales and Water Pumped

Applicant agrees that the staff's estimates of the number of metered and unmetered services and the amount of metered sales reflect current operating conditions. Applicant does differ with the

staff regarding the amount of water that will be provided unmetered commercial customers. Staff estimates an annual usage of 376 Ccf per connection. Applicant projects an annual usage of 404 Ccf. The engineers explained how they arrived at their respective estimates, and the data and inferences upon which they relied. The data could support estimates ranging from 350 Ccf to 425 Ccf. After consideration of all of the evidence in this regard we are of the opinion that 391 Ccf represents a more reasonable estimate of annual water usage per unmetered customer for the test year. For the purpose of developing reasonable estimates of revenues and expenses for the test year we adopt the figures in Table I, below:

TABLE I

<u>Metered Services</u>	<u>Customers</u>	<u>Ccf Water</u>
Commercial	1,653	703,517
Industrial	46	1,108,922
Public Authorities	60	283,620
<u>Unmetered Services</u>		
Commercial	12,800	5,004,800
Private Fire Protection	69	789,984*
Public Fire Protection	756	
Total	15,384	7,890,843

\* Includes water for fire protection, flushing of lines, samples, leaks, and other unaccounted for water.

### Revenues

The staff's estimates of revenues reflect the number of customers and water usage set forth in Table I and will be adopted. Those estimates for the test year are: \$1,033,900 under present rates and \$1,338,100 under the proposed rates.

### Operations and Maintenance Expenses

The principal differences between applicant's and staff's estimates concern customer accounts payroll, purchased power expense,

and an allowance for inflation on materials and services expense. Both agreed on the July 1, 1975 power cost to pump and distribute 1 Ccf of water. The difference in estimates of power cost result from their respective estimates of amount of water to be pumped. We have already arrived at a reasonable estimate of 7,890,843 Ccf.

The staff reduced applicant's customer account payroll expense by \$16,900. It contends that, to the extent that the expense exceeds \$1.00 per bill, it is excessive in comparison with other water companies. The duties and activities of the three employees involved are described in the record. They involve more than meter reading and routine "turn-ons" and "shut-offs". Each of the three employees is assigned a specific segment of applicant's dispersed service area in which he is responsible not only for the routine tasks described above, but also for handling the customer complaints and collecting delinquent bills in that segment. The duties embrace all aspects of customer relations. The duties combined with the geographical scope of applicant's service areas require the employment of the three persons involved. There is a disparity rather than a similarity of the operational characteristics of the companies being compared, and the conclusions by the staff based upon such comparisons are not warranted.

Another area of disagreement in estimates is the projection of materials and services expense to allow for inflationary conditions. Applicant applied an inflation factor of 10 percent; staff used 8 percent. Both engineers based their projection of inflation generally upon the same indices and reference sources; their disagreement stems mainly from interpretation of the data contained therein. Projection of inflation upon the costs of materials and services utilized by applicant is an uncertain business; however, the data provides better support for 10 percent than for 8 percent.



Table II sets forth our estimates of operation and maintenance expense for the test year.

TABLE II

Operation and Maintenance Expense

<u>Item</u>	<u>Amount</u>	<u>Note</u>
Payroll except Customer Accts.	\$144,800	1
Payroll, Customer Accts.	84,000	2
Purchased Power	144,700	3
Materials, Services, Misc.	89,000	4
Customer Accts. Less Payroll	30,800	1
Uncollectibles	4,600	1
	<u>\$497,900</u>	

Notes:

1. Staff estimate for test year.
2. Staff test year estimate plus \$16,900.
3. 7,890,843 Ccf water times \$0.01834.
4. Staff adjusted 1974 expense expanded by 10%.

Administrative and General Expense

The principal areas of disagreement between applicant and staff are in expense for computer services, inflation factor, regulatory expense, and outside services expenses.

In 1968 applicant's general ledger accounting was taken over and handled by the parent company (Beard Land and Development Company). In 1971 another subsidiary of the parent, Beard Land Improvement Company, arranged to lease and operate an NCR-400 business machine with certain computer capabilities. Initially, the machine was used for general accounting for the three operating subsidiaries, including applicant. Subsequently, the machine was also used in connection with applicant's billings for metered services. Later an additional NCR-400 was obtained because of the workload of the three operating companies. The charge made to applicant by Beard Land Improvement Company for computer services was initially established at \$250 per month and was unchanged during the

period the NCR-400 machines were utilized. In 1973 the machine hours per month for applicant's work amounted to 110 hours of 350 total available hours per month for the two machines. The total monthly cost to Beard Land Improvement Company was \$4,082. In 1974, after analysis by an outside systems expert, Beard Land Development Company replaced the two NCR-400 machines with one NCR-399 machine. This machine is a tape-type computer with greater memory and storage capacity as well as having a 200 per-minute line printer. A systems analyst was engaged to develop programs for applicant's requirements, including billing for unmetered services. He estimated 28 hours of machine time per month would be needed to fulfill applicant's requirements. The cost per hour of computer use was determined and multiplied by the 28 hours. The result is a figure over \$900. Beard Land Development Company charges applicant \$800 per month for the accounting and billing functions performed by the computer. To test the reasonableness of the charge applicant obtained a quotation from an independent computer service company to handle its accounting functions and water billing. The quotation received was \$1,243 per month. We adopt \$800 per month as a reasonable expense for the services.

Applicant expanded its recorded transportation expenses by 20 percent which result in an inflation factor for office supplies and expenses greater than 10 percent. Staff used 8 percent. Ten percent is consistent with the evidence of record.

Regulatory expense involves the amortization of engineering fees and legal fees incurred with respect to proceedings in the instant application. Applicant and staff differ both as to reasonable allowance for fees and the period of time for amortization thereof. The engineering consulting firm assigned a project engineer and two assistants to develop data for the initial report which was prepared in September 1974. Also involved in that initial report was a financial analyst and a certified public accountant; additionally,

eleven hours of draftsman services and 67 hours of clerical services were involved in its preparation. In the initial report \$25,200 was estimated as the cost of legal and engineering fees connected with this application. Subsequently, the first amendment to this application was filed seeking an interim increase in rates, and then a second amendment was filed updating and revising revenue and expense estimates. Four full days of hearing were held requiring the services of legal counsel, the project engineer, and the financial analyst. Applicant revised its estimate to \$27,000 for engineering fees and \$12,000 for legal fees amortized over a period of three years which amount to an estimated expense of \$13,000 annually. The staff estimated \$17,000 for engineering fees and \$3,800 for legal fees, amortized over a period of four years, or \$5,200 annually. The staff's estimate of engineering fees is based upon an early estimate by applicant's consulting engineer of \$15,000 for the cost of the study and adding \$2,000 as an estimate of cost of services connected with the amended application. The estimate by the staff did not consider that issues would develop in this application requiring four full days of hearing.

The staff believes that the regulatory fees should be amortized over a period of four years because it has been four years since applicant's last general rate case, and although current economic conditions have been such as to require rate adjustments more frequently than every four years, the Commission's procedures for rate advice letter filings and for cost offset proceedings has obviated the necessity of having a complete general rate case in order to effect rate changes required by changing economic conditions.

Applicant's estimates of the engineering and legal costs that will be incurred as a result of this proceeding are reasonable. We agree with the staff, however, that amortization of those costs over a period of four years is more suitable.

The difference in the estimates of expenses for outside services is attributable to the estimate for audit fees. At the hearing it was established that the fee charged by the auditor for 1974 was \$5,400, and that the auditor estimated his fee for 1975 as \$5,800, which we adopt.

Table III sets forth our estimates of reasonable administrative and general expense for the test year.

TABLE III

Administrative and General Expense

<u>Item</u>	<u>Amount</u>	<u>Note</u>
Salaries	\$ 75,300	1
Office Supplies & Expense	29,700	2
Property Insurance	21,100	1
Injuries & Damages	3,800	1
Employee Pensions, etc.	40,500	1
Regulatory Expense	9,800	3
Outside Services	6,800	4
Miscellaneous General Expense	9,600	1
Maintenance	2,700	1
Rents	19,000	1
A & G Expenses Transferred	(8,800)	1
	<u>\$209,500</u>	

(Red Figure)

Notes:

1. Staff estimate for test year.
2. Staff adjusted 1974 expense of \$21,300, less computer expense of \$3,000, expanded 10 percent for inflation, plus \$9,600 for computer cost.<sup>2/</sup>
3. \$27,000 engineering fee plus \$12,000 legal fees amortized over a four-year period.
4. \$5,800 audit fee plus \$1,000 miscellaneous and legal costs.

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<sup>2/</sup> From an accounting standpoint only half of the computer expense should be reflected in A & G Office Supplies and Expense and the other half reflected in O & M Customer Accounts Expense. For simplicity and brevity of explanation of the adjustments we have chosen to make the entire adjustment here. It has no effect upon the end result in ratemaking.

Depreciation Expense and Taxes

There is only a minor difference between applicant's and staff's estimates of depreciation expense which is attributable to applicant making small reductions in the presently effective service lives of hydrants, general structures, and transportation equipment. No good reason was furnished by applicant for the changes. We will adopt the staff's estimates.

Taxes other than income taxes include ad valorem taxes, payroll taxes, and franchise taxes. The latter are based upon revenue. In view of the fact that we have adopted the staff's revenue estimates, we will adopt the staff's estimates of taxes. Taxes on income were developed in the standard manner. Both applicant and staff considered investment tax credit as a reduction in rate base to be restored ratably over the useful life of the property.

Rate Base

The only differences between applicant's and staff's estimates are in the depreciation reserve and in working cash. Applicant's estimate of reserve for depreciation considers accruals resulting from its revisions in the service lives of hydrants, general structures, and transportation equipment, discussed above. Working cash allowance is a function of revenues and expenses. Because we arrive at reasonable expenses different from those estimated by the staff, we will give recognition to that difference in providing an allowance for working cash.

Rate of Return

Applicant's and staff's computations of applicant's average capital structure differ somewhat for the reason that applicant's is based upon a ten-year average 1964-1973 and staff's is based on a ten-year average 1965-1974. The staff also included in long-term debt certain interim notes of \$40,000 in

1968 and \$100,000 in 1969. We adopt the staff's computations which reflect the following relationship of debt and equity capital: long-term debt 43.45 percent; common stock equity 56.55 percent. For the purpose of considering financial requirements of applicant for the test year, staff assumed that applicant would continue to obtain financing through its bank on short-term notes and that refinancing would be accomplished by issuance of long-term securities. Based upon that assumption it envisions a capital structure for the test year of 46.3 percent debt at an imbedded cost of 8.39 percent, and equity capital of 53.7 percent. Applicant's ability to obtain long-term debt financing in the immediate future is not assured and at best can only be termed hopeful; nevertheless, the circumstances envisioned by the staff should be considered in determining a reasonable rate of return.

Applicant contends that an 11.8 percent rate of return on rate base will be reasonable. It urges that a rate of return that will provide it with a 13.4 percent return on equity will not be excessive. Its contentions are predicated upon its need for capital and comparisons with current yields on no risk capital (AAA Bonds) and on earnings of large utilities and medium risk industrial corporations.

The staff recommends that applicant be authorized increased rates which will provide opportunity to earn between 9.3 and 9.6 percent rate of return on rate base. That is in the upper level of the range in the rates of return authorized by the Commission for other water utilities during the eighteen-month period of January 1974 through June 1975. Based upon the capital structure described above, the recommended range would provide an earnings allowance for common stock equity of between 10.08 percent and 10.64 percent. That range is somewhat lower than what had been approved by the Commission in connection with the other water utilities, primarily for the reason of the somewhat high equity ratio of applicant's capital structure.

It is clear from the testimony of the staff's witness that he was of the opinion that there are many special circumstances with respect to applicant's operations and financial condition that may justify a higher rate of return than he had recommended; however, he felt constrained by what he believed to be holdings of the United States Supreme Court in Bluefield Water Works and Improvement Co. v West Virginia Public Service Commission (1923) 262 US 679, and in Federal Power Commission v Hope Natural Gas Company (1944) 320 US 591. It was his opinion that a rate of return for applicant higher than those approved by the Commission for other water companies may be excessive because of the following language in Bluefield:

"A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises of speculative ventures."

It is apparent that the staff witness considered the other water companies to be business undertakings which are attended by risks and uncertainties corresponding to those encountered by applicant. It should be noted, however, that he believed that a rate of return equivalent to the higher ones that had been approved by the Commission would be reasonable.<sup>3/</sup>

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3/ RT 266-267:

"Q. First of all, do you have any view as to where in the range that you recommend the rate of return actually should be?

"A. No, I have not, not a particular point. The lower end of the range is stringent and the upper end of the range is I think reasonable."

First of all, the staff's approach assumes that the risks assumed by all water companies in California are similar or substantially the same. That assumption is questionable. Secondly, implied in the staff's approach is a premise that the Commission has considered what range of rate of return would be reasonable for water companies generally. That premise is invalid. Thirdly, in its interpretation and application of the holding in the Bluefield and Hope cases the staff has injected a rigidity of rule or method that the court itself disavowed.

Because both applicant and the staff suggested "methods" in determining risks and in arriving at a reasonable return, it is desirable that the language used by the court in Hope (at p. 603) concerning those matters be set forth:

"The rate-making process under the Act, i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. Case that 'regulation does not insure that the business shall produce net revenues'. [Citations] But such considerations set aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. [Citations] By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital. [Citations]"



The Supreme Court's own articulation of what it said in Hope is also pertinent to the matter being discussed. In State of Wisconsin, et al. v Federal Power Commission (1963) 373 US 294, the court stated:

"But to declare that a particular method of rate regulation is so sanctified as to make it highly unlikely that any other method could be sustained would be wholly out of keeping with this court's consistent and clearly articulated approach to the question of the commission's power to regulate rates. It has repeatedly been stated that no single method must be followed by the commission in considering the justness and reasonableness of rates, Federal Power Commission v Hope Nat. Gas Co. (1944) 320 U.S. 591, 51 PUR NS 193, 88 L ed 333, 64 S. Ct. 281; Colorado Interstate Gas Co. v. Federal Power Commission (1945) 324 U.S. 581, 58 PUR NS 65 89 L ed 1206, 65 S Ct. 829, and we reaffirm that principle today. As the court said in Hope: 'We held in Federal Power Commission v Natural Gas Pipeline Co., supra, that the commission was not bound to the use of any single formula or combination of formulae in determining rates. Its ratemaking function, moreover, involves the making of "pragmatic adjustments." Id. at p. 586. And when the commission's order is challenged in the courts, the question is whether that order "viewed in its entirety" meets the requirements of the act. Id. at p. 586. Under the statutory standards of "just and reasonable" it is the result reached not the method employed which is controlling.'"

This Commission has consistently held that in arriving at a conclusion as to what constitutes a reasonable rate of return it is not possible to rely on the use of formula alone. The finding of the Commission in this respect must represent the exercise of judgment after giving consideration to all of the circumstances surrounding each case. (So. Cal. Water Co. (1962) 60 CPUC 23, 28-29.) In Pacific Telephone & Telegraph Co. (1968) 69 CPUC 53, 67-68, the Commission listed some 24 factors as influencing the rate of return

which might affect the level of rates or of a particular rate and stated that no one of those factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return. In that decision the Commission also stated:

"This Commission must give equal consideration to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return."

The aforementioned approach by the Commission in the determination of a fair and reasonable rate of return has been approved by the California Supreme Court in PT&T v PUC (1965) 62 C 2d 634, wherein it stated at page 658:

"... This approach accords with the 'pragmatic adjustments', 'total effect' and 'end result' of 'just and reasonable' rates reviewed and approved in Federal Power Comm. v Hope Natural Gas Co., supra, 320 U.S. 591, 602-603, upon which Pacific relies."

We will continue this approach of balancing the consumer interest and the investor interest in our determination of fair and reasonable earnings and just and reasonable rates in this proceeding.

As we have previously stated, applicant's water service is very good. The improvements to the system which applicant has budgeted are necessary improvements and ones which are in the interests of the presently existing customers. The improvements are unrelated to any future land developments that might provide additional service connections. At this point it should be pointed out that none of said improvements will provide applicant's stockholders or its affiliates with any benefits over that which will be received by the present customers. It should also be noted that there has been little or no financial gain to Modesto and Empire Traction Company and other affiliates of applicant as a result of any intercompany transactions involving applicant.

Applicant has budgeted \$643,000 over a period of three years for the aforementioned improvements. The amount considers a 1974 cost level and is somewhat conservative in view of inflationary trends. The funds to finance those improvements have to come from some source. Staff suggests that the funds may be obtained from additional long-term debt at an annual cost of 10 percent, or that the stockholders may infuse additional equity capital into the business. Its suggestion does not consider the present day realities of applicant's economic situation. First of all, applicant's present source of long-term debt financing has informed applicant that it presently is not interested in lending money to California utilities because it can obtain higher interest rates with quality instruments in other states. There is only a vague possibility that it will change its policy in the near future. But even if it does, the possibility of additional financing from that source at a 10 percent cost to applicant is so remote as to be unrealistic. Applicant's last borrowing from that source was in 1971 evidenced by a promissory note for \$500,000 bearing interest at the rate of 9-1/4 percent per annum.<sup>4/</sup> The effective rate of interest on the funds obtained was 9.54 percent per annum. In obtaining that financing, applicant was required to retire two 5-1/2 percent interest bearing notes previously issued to the lender in the aggregate amount

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<sup>4/</sup> That indebtedness was authorized by the Commission in its Decision No. 78674 dated May 11, 1971 in Application No. 52558 of which we take notice. The decision describes restricted prepayment provisions of the proposed note and contains the following finding:

- "2. Applicant would be required to pay interest at a lower rate than it would in the absence of the proposed restricted prepayment provision."

of \$260,000. The cost of secured debt financing generally has increased significantly since 1971.<sup>5/</sup> Past experience and current economic conditions indicate that if in the immediate future Pacific were willing to provide additional debt capital to applicant, the terms of the borrowing would provide an effective interest rate on that borrowing well in excess of 10 percent, would require applicant to use a portion of the proceeds to retire some, if not all, of its remaining debt that bears interest at 5-1/2 percent, and thereby result in applicant having an effective rate of interest on total long-term debt somewhere around 10 percent instead of the 8.39 percent computed by the staff.

The obtaining of long-term debt financing by applicant from another source is not a realistic alternative at the present time. Even if alternative sources were available, and the testimony of both applicant's and staff's witnesses is that they are not, the terms of the promissory notes held by Pacific require that the assets of applicant cannot be pledged as security on loans from other sources. Any mortgage loans from other lending institutions would necessitate applicant's retiring the existing debt to Pacific. The terms regarding prepayment of those loans within the next six to ten years make the cost of any such new financing virtually prohibitive, not only from the standpoint of the company itself but also from the standpoint of the ratepayers. The cost of servicing debt which has been approved by the Commission must be considered by the Commission in determining a reasonable return on the rates it establishes for applicant's service.

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<sup>5/</sup> This is a matter of common knowledge; however, we take notice of Decision No. 84782, entered August 12, 1975, in which PG&E was authorized to issue \$175,000,000 first and refunding mortgage bonds bearing a coupon interest rate of 9-1/2 percent. In 1971 PG&E issued mortgage bonds bearing a coupon rate of 7-1/2 percent. Both issues had a rating of AA.

At the hearing the possibility of applicant's obtaining additional capital through the issuance of preferred stock was considered. Considering that recent preferred stock offerings by publicly held utilities far larger than applicant have had face dividend rates of between 11 and 12 percent, it is readily apparent that the cost to applicant of any successful public offering of preferred stock would be well in excess of 12 percent.

Staff suggests that applicant furnish new additional equity capital into the enterprise. Under the circumstances here where the company has a history of providing good service and providing meager returns to its stockholders in dividends or other compensation, the Commission could not require or encourage the stockholders to provide new funds without authorizing rates that will furnish opportunity for earnings on that investment at least equivalent to that the stockholders could obtain from other investments of similar risk. In that connection we note the returns on PG&E's lower risk bond and preferred stock issues mentioned above, and also the 12 percent return on equity resulting from the rates prescribed for PG&E in Decision No. 84902 dated September 16, 1975.

By its presentation of Exhibit 6, applicant implied that if it could not obtain capital from borrowings that it would continue to finance improvements from internal funds. It estimated that under its proposed rates \$177,000 per year would be available for company funded capital replacements and improvements. While applicant's budget showed improvements of about \$643,000 for three years, there was a duplication of \$7,100 in that budget. We recognize that the budgeted amounts are estimated at 1974 cost levels, that some of the items in the budget have already been constructed, and that there are other items of necessary replacements and improvements that are not included in that budget. A fair approximation of future costs

of the necessary improvements over a period of years is between \$625,000 and \$650,000. Although applicant has anticipated making the improvements over a period of three years, there is nothing sacrosanct regarding that time period. Some of the improvements and additions are more urgent than others and it would be desirable to implement all of them as soon as feasible; however, if some of the less urgent items were to be deferred the result would be the postponing of improved deliveries of water at better pressure. If we assume for the moment that no outside capital will be available to applicant and the only source of funds will be those funds generated internally within the company, the average annual requirement for internally generated funds to accomplish \$636,000 improvements over three years is \$212,000, whereas if spread over four years it is \$159,000.

We will use the format of applicant's Exhibit 6 to determine and test the revenue requirement for the latter figure in Table IV, below:

TABLE IV

## Application of Funds:

Company funded improvements	\$159,000
Interest	86,400
Long-term debt principal repayment	15,500
Advance Refunds	50,500
Plant financed by Advances and Contributions	73,500
Dividends to Stockholders	46,000
Total Funds Applied	<u>\$430,900</u>

## Source of Funds:

Depreciation Expense	\$112,400
Investment Tax Credit	18,000
Advances and Contributions	73,500
Revenue Requirement	<u>227,000</u>
	\$430,900

On a depreciated rate base of \$2,157,200, net earnings of \$227,000 is equivalent to a rate of return of 10.5 percent, which on the capital structure described above represent a return on equity capital of 12.3 percent. Within that framework it would appear that those earnings would provide sufficient funds to service applicant's debt, provide the dividend to stockholders that it suggests, and enable applicant to provide the additions and betterments required. The earnings will provide 2.7 times interest coverage which applicant contends will be required in order to acquire additional long-term borrowings, and a return on equity equivalent to that approved for other well managed utilities of similar risk.

We have considered earnings within the framework that outside capital will not be available to applicant, and the evidence indicates that such probably will be the case in the immediate future. It is desirable here to consider whether the above-mentioned earnings would be sufficient to cover additional cost of debt servicing in the event that long-term debt financing does become available to applicant. In the present state of the economy we cannot pretend to predict with any reliability the financial and economic conditions beyond the immediate future, but if long-term debt financing becomes available and is obtained by applicant under conditions wherein the amount of the borrowings results in a ratio of total debt to total capital of 50 percent, and the effective rate of interest on total debt does not exceed 10 percent, applicant should have very little difficulty in servicing the additional debt. The additional interest involved in the borrowing is deductible from income taxes and therefore there would be additional net earnings available for debt servicing. Under such circumstances applicant's return on its equity capital would not be diminished.

We have considered the evidence and argument of applicant for a rate of return higher than 10.5 percent. It is true that if applicant were to look to the public for investors in its common stock, the future earnings envisioned by the 10.5 percent rate of return would not divert investors from more attractive investments in industrials or in eastern and midwestern utilities, but that is not applicant's situation. Earnings which will cover service on debt, including anticipated borrowings for improvements and other proper purposes, provide dividends on the stock determined by applicant, and provide the times interest coverage deemed necessary by applicant to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital, are sufficient.

In considering whether some rate of return lower than 10.5 percent would be reasonable we are confronted by the fact that if the standard of water service is to be improved, or even maintained, improvements and additions to plant will be necessary, and they will require the expenditure by the company of capital that must be obtained from some source. Regardless of the source the cost of that capital will be borne by the ratepayers. A rate of return that does not admit of applicant's obtaining the required capital would merely result in a deterioration of the plant and of the service so that at some future time even greater capital expenditure would be required to restore the service. In that event the overall burden on the ratepayer would be much greater than if the improvements and additions to plant necessary for that standard of service are made on a reasonable construction schedule as described herein.

#### Revenue Requirement and Rate Spread

We have already made determinations concerning reasonable operating expenses, and we are therefore able to approximate a gross revenue requirement of \$1,275,000<sup>6/</sup> that will provide net earnings of about \$227,000. The next problem is that of reasonably apportioning the burden of that revenue requirement among the various classes of service.

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<sup>6/</sup> See Footnotes bottom of Table VII, page 32.



There are many factors contributing to a design of a rate structure that will provide just and reasonable rates. Some that appear more pertinent to the instant case include: historical rate relationships, cost of service, value of the service, what the traffic will bear, competition, and simplicity of application.

Applicant provides flat rate general service to about 88 percent of its customers, most of whom are residential. Water service connections to unmetered general service customers are either 3/4-inch or 1-inch with the majority of them being the former. Applicant's present rate schedules for flat rate general service call for a monthly charge of \$4.15 for a 3/4-inch connection and \$4.80 for a 1-inch connection. It proposes to eliminate the differential and to establish a uniform charge of \$5.41 per month for flat rate general service. There are relatively few 1-inch service connections and applicant's proposal will simplify the application of the unmetered rates; however, the reasonableness of the proposed charge must be measured against the charges for metered service.

The distribution of the estimated 1,759 metered services according to meter size is as follows:

5/8-inch meter -	376	3-inch meter -	25
3/4-inch meter -	781	4-inch meter -	22
1-inch meter -	306	6-inch meter -	12
1-1/2-inch meter -	106	8-inch meter -	5
2-inch meter -	126		

The preponderance of those connections are to commercial customers as distinguished from residential customers; however, many of them serve single family and multi-family residential dwellings.

It will be recalled that the water usage per flat-rate customer was estimated at 391 Ccf per year, or an average monthly consumption of 32.58 Ccf. At the present rates a customer with a 3/4-inch meter is charged \$9.04 for that amount of water, whereas the flat-rate customer with a 3/4-inch connection is charged \$4.15.

That ratio of 217.8 to 100 between metered charges and flat-rate charges seems somewhat high. Under applicant's proposal the charge to the metered customer would be \$12.03, an increase of 33 percent, and to the flat-rate customer \$5.41, an increase of 30.4 percent, and the ratio of charges would be 222.4 to 100. From Table II it may be seen that costs related to customer accounts are less than 25 percent of the total operation and maintenance expense. Because of the cost-related activities of meter reading and billing, no doubt the cost per customer for customer accounting is greater for metered customers than for flat-rate customers. The difference, however, would not appear to justify the substantial differential in rates.

Applicant proposes to revise its metered rate structure from six consumption blocks to four. This is certainly a step in the right direction, but we are concerned that it may not go far enough. From Table II it may be seen that applicant's purchased power expense based upon July 1, 1975 cost levels amounts to 29 percent of total operation and maintenance expense. It is common knowledge, and we take official notice of the fact, that power costs have increased substantially during 1975. Each gallon of water sold by applicant must be pumped and requires the use of electricity or natural gas to operate the pumps. The cost per unit of water production appears to be constant whether the customer takes 10 units or 10,000 units. Variations in the cost per unit of water sales because of differences in volume of water sold would relate primarily to customer accounting costs and distribution plant costs. From a cost standpoint substantial differences in applicant's unit rates for water sales would not appear to be justified. On the other hand, the rights to water in the ground water basins from which applicant obtains water are not exclusive. Large users of water may obtain water from private wells and to that extent applicant

encounters actual and potential competition. To the extent that applicant's tail-block rate exceeds its out-of-pocket cost for volume sales, that rate will contribute to overhead expenses and thereby relieve some of the burden from the other ratepayers. Applicant's proposed rate of 15 cents per Ccf for all water over 100 Ccf will be sufficient to contribute over the out-of-pocket cost of sales. We take note that at lower rates one of applicant's largest customers undertook to construct its own water supply. That circumstance indicates that applicant's proposed tail-block rate may be all that the traffic will bear. There is no evidence that would indicate otherwise. The same does not hold true, however, in connection with the establishment of two rate blocks for consumption of water between the minimum of 10 Ccf and 100 Ccf. We find nothing that would indicate any significantly different unit cost of water for sales of 25 Ccf from that of 75 Ccf, nor would applicant be likely to encounter competition from private wells for water of that quantity.

Both applicant and staff recommend that no action be taken which would result in applicant having to convert unmetered services to metered services. There are good reasons for the recommendation. The cost of a large conversion would place an additional drain upon applicant's capital which would be harmful at this time, and certainly would increase its revenue requirement and necessitate further rate increases. Although it was not argued specifically at the hearing, we also recognize that because of the climatic and geographical conditions in applicant's service area, there are ecological benefits to the community of having flat-rate water service to single family residences to encourage the planting of trees and other landscaping on private property.

Because of notices to the public of applicant's proposed increases in rates, it is not desirable to establish a rate structure in which any individual rate exceeds the rate proposed by applicant for the same service. We keep that in mind, as well as all of the other considerations described above, in determining a reasonable rate structure that will provide applicant with approximately \$1,275,000<sup>7/</sup> operating revenues under normal climatic conditions. Table V, below, sets forth the rates which will accomplish that result and provides a comparison with the present rates and the proposed rates:

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<sup>7/</sup> See Footnotes 12 and 13, bottom of Table VII.

TABLE V

Comparison of Present, Proposed, and Authorized RatesMetered ServiceQuantity Rates

		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u> 8/
First	10 cu.-ft. or less	\$ 3.05	\$ 3.75	\$ 3.30
Next	20 cu.-ft., per 100 cu.-ft.	.271	.375	.262
Next	70 cu.-ft., per 100 cu.-ft.	.221	.303	
Next	400 cu.-ft., per 100 cu.-ft.	.151		
Next	9,500 cu.-ft., per 100 cu.-ft.	.113	.15	.15
Over	10,000 cu.-ft., per 100 cu.-ft.	.101		

Minimum Charge

For 5/8 x 3/4-inch meter	\$ 3.05	\$ 3.75	\$ 3.30
For 3/4-inch meter	3.36	4.00	4.00
For 1-inch meter	4.27	5.65	5.25
For 1-1/2-inch meter	7.31	11.00	11.00
For 2-inch meter	10.99	16.00	16.00
For 3-inch meter	22.40	30.00	30.00
For 4-inch meter	32.00	50.00	50.00
For 6-inch meter	48.01	90.00	90.00
For 8-inch meter	74.68	140.00	140.00

Flat Rate Service - Charge per MonthGeneral Service

For 3/4-inch connection	\$ 4.15	\$ 5.41	\$ 5.20
For 1-inch connection	4.80		

Private Fire Protection

Per inch diameter connection	\$ 1.44	\$ 1.88	\$ 1.88
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Public Fire Hydrant Service

Hydrants Owned by Agency			
Each Wharf Type Hydrant	\$ 1.28	\$ 1.67	\$ 1.67
Each Standard Type	2.56	3.33	3.33
Hydrants Owned by Utility			
Each Wharf Type	1.81	2.36	2.36
Each Standard Type	3.09	4.02	4.02

<sup>8/</sup> Appendix A contains revised authorized rates to generate an additional gross revenue of \$23,400 to offset the increased cost of purchased energy which became effective November 1, 1975 by Commission Decision No. 85082.

We estimate that the authorized rates set forth in Table V will provide applicant with gross operating revenues of \$1,275,500<sup>9/</sup> under normal climatic conditions. It may be noted that we have adopted applicant's proposed rates except for the flat rates for general service, the minimum charges for 5/8 and for 1-inch meters, and the metered rates for quantities less than 100 Ccf. Adjustments are made in those areas to provide a rate structure which will reflect a ratio of metered charges to flat rate charges for 32.58 Ccf of 177 to 100 and to make the monthly flat rate charge equivalent to the monthly charge at metered rates for 1,725 cubic feet of water through a 3/4-inch meter. The minimum charge for a 1-inch meter is approximately the same as, but slightly in excess of, the flat rate for unmetered service. We are of the opinion that those adjustments will provide for a more equitable relationship between metered and unmetered charges for general service and still provide a sufficient benefit to the typical resident being served at flat rates so as not to encourage him to request metered service.

The overall increase in flat rate charges is something less than 25 percent. The amount of increase in charges at metered rates varies with the size of meter and the quantity consumed. The variance is due to the reduction of quantity rate blocks from six to three. The lesser increases in charges occur at quantities of 30 Ccf and 500 Ccf because of that circumstance. The rate structure as a whole will provide applicant with an increase of about 23.4 percent.

Table VI, below, sets forth comparisons of charges for typical services:

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<sup>9/</sup> See Footnotes 12 and 13, bottom of Table VII.

TABLE VI

Comparison of Monthly Charges Under  
New Rates with the Charges  
Under Current Rates

Flat Rate General Service <sup>10/</sup>

<u>Connection Size</u>	<u>Current Charge</u>	<u>New Charge</u>	<u>Difference</u>	
3/4"	\$4.15	\$5.20	\$1.05	25.3%
1"	4.80	5.20	.40	8.3

Metered Service <sup>11/</sup>

<u>Quantity Ccf</u>	<u>Size of Meter</u>					
	<u>5/8"</u>		<u>3/4"</u>		<u>1"</u>	
	<u>Old</u>	<u>New</u>	<u>Old</u>	<u>New</u>	<u>Old</u>	<u>New</u>
10	\$ 3.05	\$ 3.30	\$3.36	\$4.00	\$4.27	\$ 5.25
12	3.59	3.82	3.59	4.00	4.27	5.25
14	4.13	4.35	4.13	4.35	4.27	5.25
16	4.68	4.87	4.68	4.87	4.68	5.25
18	5.22	5.40	5.22*	5.40*	5.22*	5.40*
20	5.76	5.92	<u>\$ Increase</u>		<u>% Increase</u>	
22	6.30	6.44		.14		2.22
30	8.47	8.54		.07		0.83
32	8.91	9.06		.15		1.68
50	12.89	13.78		.89		6.90
75	18.42	20.33		1.91		10.37
100	23.94	26.88		2.94		12.28

\* Charges for 3/4" and for 1" size meter the same as for 5/8" size meter for quantities of 18 Ccf or more.

For 4" Size Meter

<u>Quantity Ccf</u>	<u>Current Charge</u>	<u>New Charge</u>	<u>\$ Increase</u>	<u>% Increase</u>
150	\$ 32.00*	\$ 50.00*	18.00	56.25
200	39.04	50.00*	10.96	28.07
300	54.14	56.88	2.74	5.06
500	84.34	86.88	2.54	3.01
1,000	140.84	161.88	21.04	14.93
2,000	253.84	311.88	58.04	22.86
5,000	592.84	761.88	169.04	28.51
10,000	1,157.84	1,511.88	354.04	30.58
20,000	2,167.84	3,011.88	844.04	38.93

\* Minimum Charge for 4" meter.

<sup>10/</sup> See Footnotes 12 and 13, bottom of Table VII. The Flat Rate General Service, Schedule No. 2 in Appendix A, has been increased by 1.91% over the figures shown in Table VI to offset increased power costs.

<sup>11/</sup> Metered Service, Schedule No. 1 in Appendix A, has been increased by approximately 1.92% over the figures shown in Table VI to offset increased power costs.

Summary of Earnings

TABLE VII

Estimated Results of Operations of  
Del Este Water Company for a Test Year  
Under Present Rates, Proposed Rates, and  
Authorized Rates  
(1975)

	Present Rates (1)	Proposed Rates (2)	Authorized Rates 12/ (3)	Revised Authorized Rates 13/ (4)
Operating Revenues	\$1,033,900	\$1,338,100	\$1,275,500	\$1,298,900
<u>Operating Expenses</u>				
Operations and Maintenance	\$ 497,900	\$ 497,900	\$ 497,900	520,500
Administrative and General	209,500	209,500	209,500	209,500
Taxes Other than Income	99,100	100,900	99,800	100,600
Depreciation	<u>112,400</u>	<u>112,400</u>	<u>112,400</u>	<u>112,400</u>
Total	\$ 918,900	\$ 920,700	\$ 919,600	\$ 943,000
Operating Revenue Before Income Tax	\$ 115,000	\$ 417,400	\$ 355,900	\$ 355,900
Income Taxes	<u>4,900</u>	<u>161,700</u>	<u>129,300</u>	<u>129,300</u>
Net Income From Operations	\$ 110,100	\$ 255,700	\$ 226,600	\$ 226,600
Rate Base	\$2,157,200	\$2,157,200	\$2,157,200	\$2,157,200
Rate of Return	5.10%	11.85%	10.50%	10.50%

12/ The estimated results of operations in Column (3) do not give consideration to the increased cost of purchased power which became effective November 1, 1975 by Commission Decision No. 85082.

13/ The estimated results of operations in Column (4) provide an additional gross revenue of \$23,400 to offset the increased cost of purchased power effected by Commission Decision No. 85082. The rate schedules in Appendix A are designed to generate a gross revenue of \$1,298,900.



Findings

1. Table VII sets forth reasonable estimates of the results of operation by applicant for a test year under the present rates, under the proposed rates, and under the rates which will be authorized herein.

2. The earnings by applicant under the present rates will be insufficient to cover, in the aggregate, reasonable operating expenses, the cost of servicing debt, and a return to the equity owner commensurate with returns on investments in other enterprises having corresponding risks. The return under the present rates is insufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and attract the capital which is required for additions and improvements that are necessary to maintain its standard of water service.

3. The earnings by applicant under the proposed rates will be in excess of the amount which will cover, in the aggregate, reasonable operating expenses, the cost of servicing debt, and a return to the equity owner commensurate with returns on investments in other enterprises having corresponding risks.

4. The rates specified in Table V of this opinion as authorized rates will provide gross operating revenues of \$1,275,500 under normal climatic conditions which will cover reasonable operating expenses, the cost of servicing debt, and a return to the equity owner commensurate with returns on investments in other enterprises having corresponding risks. The return thereunder will be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and attract the capital which is required for additions and improvements to assure maintenance of its standard of water service.

5. The rates in Appendix A and referred to as revised authorized rates in Table VII will provide an additional \$23,400 for total gross operating revenues of \$1,298,900. The \$23,400 is the additional cost of purchased power which became effective November 1, 1975 pursuant to Decision No. 85082.

6. The revised authorized rates will provide a total amount of increase in annual revenue of \$265,000 a 10.50 percent rate of return on a depreciated rate base of \$2,157,200, a return on common equity of 12.3 percent, which returns, because of the circumstances set forth in the preceding opinion, are just and reasonable for the operation of applicant's water utility service.

7. The revised authorized rates will spread the cost burden equitably among the various classes of customers with due consideration to the ratemaking factors of cost of service, historical rate relationships, value of the service, competition, and simplicity of application.

8. The revised authorized rates and charges are just and reasonable and the increases in rates resulting therefrom are justified; the present rates and charges, insofar as they differ from the authorized rates, are for the future unjust and unreasonable.

#### Conclusion

Applicant should be authorized to establish the revised authorized rates described herein.



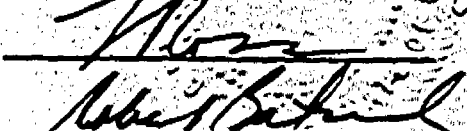
The rate relief, though based upon estimated test year 1975 operations, will not be recognized until the effective date of the tariff. We recognize that this application has been under consideration for a lengthy period of time, and that there has been a minimum of protest, and further that applicant generally realizes lower revenue in the winter months to the point of running at a loss; consequently, we will make the effective date of this order the date hereof.

O R D E R

IT IS ORDERED that after the effective date of this order Del Este Water Company is authorized to file the rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall be four days after the date of filing. These schedules shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 13th  
day of JANUARY, 1976.

  
\_\_\_\_\_  
President  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners

APPENDIX A  
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## Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

## Quantity Rates:

	Per Meter Per Month	
First 1,000 cu.ft. or less .....	\$ 3.35	(I)
Next 9,000 cu.ft., per 100 cu.ft. ....	.267	
Over 10,000 cu.ft., per 100 cu.ft. ....	.153	(I)

## Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.35	(I)
For 3/4-inch meter .....	4.10	
For 1-inch meter .....	5.35	
For 1 1/2-inch meter .....	11.20	
For 2-inch meter .....	16.30	
For 3-inch meter .....	30.60	
For 4-inch meter .....	51.00	
For 6-inch meter .....	91.70	
For 8-inch meter .....	142.65	(I)

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

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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

	Per Service Connection Per Month	
For a premise served by an unmetered service connection .....	\$5.30	(I)

SPECIAL CONDITIONS

1. Meters may be installed at the option of the utility or the customer, in which event service thereafter will be furnished only under Schedule No. 1, Metered Service. A customer's request for metered service must be made in writing.

2. Customers requesting service of the following types will not be served under this schedule, but will be served under Schedule No. 1, Metered Service:

- a. Residential service connections larger than 3/4" diameter or any 3/4" residential service that, in the utility's judgment, may consume excessive water because of lot size, special equipment or unusual use.

(Continued)

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Schedule No. 2

FLAT RATE SERVICE

SPECIAL CONDITIONS - Contd.

- b. Service connections to commercial or business establishments.
- c. Service connections for agricultural purposes.
- d. Service connections to premises containing multiple dwellings or dwellings and occupied trailer houses.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATE

Per Month

For each inch of diameter of service connection .... \$1.88 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

APPENDIX A  
Page 5 of 7

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

6. The cost of the vault, check valves and appurtenances thereto shall be paid by applicant. Such payment shall not be subject to refund. Upon installation such facilities shall become the property of the utility and applicant shall advise utility of the cost thereof if installed by applicant.



APPENDIX A  
Page 6 of 7

## Schedule No. 5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

	Per Hydrant Per Month	
Hydrants owned by the fire protection agency:		
Wharf type.....	\$1.67	(I)
Standard type.....	3.33	.....
Hydrants owned by the utility:		
Wharf type.....	2.36	.....
Standard type.....	4.02	(I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, ownership, type and size.

(Continued)

APPENDIX A  
Page 7 of 7

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS - Contd.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

5. The cost of maintenance of all hydrants will be borne by the utility except that painting of and weeding adjacent to hydrants will be borne by the fire protection agency.