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Decision 84 11 025 NOV 7 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of UEHLING WATER COMPANY, a California corporation, for Authority to Increase Rates Charged for Water Service as Authorized in NOI 109-W.	Application 83-11-32 (Filed November 14, 1983)

Chris S. Rellas, Attorney at Law, for applicant.
Javier Plasencia, Attorney at Law, and Richard Finnstrom, for the Commission staff.

O P I N I O N

Summary

Applicant Uehling Water Company's request for 1984, 1985, and 1986 rate increases in thousands of dollars, in percent, and the authorized increases are summarized below.

	Revenue Increase a/			
	Requested b/		Authorized c/	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
1984	$159.5	98.7%	$127.7	77.9%
1985	26.2	8.2%	12.0	4.1
1986	19.4	5.6%	13.0	4.3

a/ Excludes 1½% utility users fee surcharge.

b/ Does not consider rate-elasticity impact.

c/ This decision defers portions of the increase with interest on the deferred amounts at 13.4%.

The Commission has established annual caps on water utility rate increases which are 50% for Class A water utilities and 100% for Classes B, C, and D water utilities. In this instance, we have treated applicant as a division of its parent, Park Water Company (Park), a Class A water utility. Applicant is totally dependent on Park for operating its system and for supplying all of its capital. In adopting a 50% rate increase cap for applicant, we continue to adhere to this policy. The deferred increases plus interest at the 13.4% rate of return authorized in this decision are designed to gradually increase applicant's rates.

Applicant proposed step increases to offset operational and financial attrition. In adopting the same capital structure and rate of return for the three test years, we have eliminated financial attrition. The step rates adopted allow for operational attrition.

Under the rate increase cap, applicant's effective rate increases are $81,962 or 50.0% in 1984, $110,245 or 44.8% in 1985, and a rate reduction of $40,331 or 11.3% in 1986. The rate decrease ensures that within the three-year rate case cycle, the overall rate increases are brought back to the levels authorized. Appendix E details how the rate increase cap was calculated.

At proposed rates applicant originally believed that the magnitude of its proposed increase would trigger a 15% decline in water sales which should be considered to avoid reduced sales volumes that it would not be able to recover. This loss equals the decline in sales volumes multiplied by the differential between its unit purchased water cost and its proposed tail block rate for general metered service.

In portions of its system, applicant is not meeting our minimum pressure requirements during peak flow periods and/or fire flow requirements. Applicant will be required to file a plant replacement and improvement plan and a construction scheduling plan with the Commission staff (staff) and to file the scheduling plan with the State Department of Health Services (DHS). In addition, applicant will be ordered to file and summarize the comments and alternate proposals of its customers on the costs, benefits, and rate impacts of its proposed improvement plan.

Background

Applicant provides water service in the City of Compton (Compton) and in adjacent unincorporated territory in Los Angeles County. Park, a public utility water corporation, purchased applicant's common stock from Dominguez Water Corporation (Dominguez) on June 30, 1981 as authorized in Decision (D.) 92579. Applicant's service area is adjacent to Park's Central Basin Division service area. The systems are interconnected. Both service areas are within the boundaries of the adjudicated Central Basin Municipal Water District (CBMWD).

Park operates and maintains applicant's system and provides billing, engineering, and administrative services for applicant. Applicant's operating and maintenance payroll expenses are time-based direct payroll charges. Park allocates: main office expenses to itself and its utility subsidiaries using the four-factor method adopted by the Commission; division administration expenses to itself and applicant (administration is locally provided for Park's other subsidiaries) using the four-factor method; and common data processing expenses to itself and its utility subsidiaries using end-of-year customers and monthly bills.

Applicant's existing distribution system is a conglomeration of four separate systems, the first of which was installed in 1928. Over 60% of the mains are undersized. Many facilities need to be replaced. Applicant normally supplies water within its relatively flat service area at pressures ranging from 40 to 60 pounds per square inch (psi). But during periods of peak demands pressures in certain areas drop to as low as 25 psi. Applicant cannot meet current fire flow standards

in portions of its service area. We will discuss the replacement program in the context of the impact such replacements could have on applicant's rates later in this decision.

Approximately 99% of applicant's water supply has been purchased from Park since April 1982 at the CBMWD rate per acre-foot (AF) plus a $2 per AF handling charge. In 1982 the system was still owned by Dominguez. The CBMWD rate was $227.25 at the time of the hearing. The rate increased to $231.29 on July 1, 1984. Applicant retired all but one of its wells, which is used as an emergency supply, because they were in poor condition. Park leases and pumps applicant's adjudicated water rights less 10 AF per year pumped from applicant's remaining well plus the water rights applicant leases from Dominguez (which expires in 1984). The lease rate for applicant's rights, credited against its purchased water costs, is $2 above the cost of purchased water less applicable replenishment, purchased power, pumping operation, and pumping maintenance expenses per AF. Aside from the $2 handling charge, Park leases these water rights at the differential between pumped and purchased water costs. Applicant's revenue requirements would be considerably higher had it constructed and equipped new wells rather than operate under the present arrangement. Furthermore, the retired wells were producing water from aquifers with undesirable chemical and bacterial characteristics.

Rate of Return

The following tabulation shows the elements of rate of return requested by applicant, recommended by staff, and the adopted percentages. The 13.40% rate of return applied to the adopted rate bases for 1984, 1985, and 1986 plus operating expense allowances for those years yields applicant's total revenue requirements for those years.

Item	Applicant's Estimated Year 1984	1985	1986	Staff 1984-1986	Adopted 1984-1986
Component					
Debt	37.6%	44.6%	48.0%	38.0%	38.0%
Equity	62.4	55.4	52.0	62.0	62.0
Cost Factor					
Debt	12.9	13.1	13.2	11.76	13.07
Equity	15.0	15.0	15.0	13.20	13.60
Weighted Cost					
Debt	4.85	5.84	6.34	4.47	4.97
Equity	9.36	8.31	7.80	8.18	8.43
Total	14.21%	14.15%	14.14%	12.65%	13.40%

Park owns all of applicant's common stock; it advances funds needed for plant construction. Both applicant and staff treat these advances as the bulk of applicant's long-term debt. They also allocate a portion of the debt associated with plant used in common by Park and its subsidiaries to applicant. Applicant assumes that Park's advances to it would increase through 1986 due to continuing losses at present rates. This procedure increases the proportion of debt in applicant's

capital structure. Applicant's witness Conway testified that funds advanced by Park to applicant should be assigned the "Baa" bond rating he ascribes to Park at a 13.5% rate; the cost of "Baa" debt has not dropped below 13.5% recently; and applicant's debt cost would be higher if it were an independent company rather than a subsidiary of Park.

Conway testified that the requested 15% return on equity is consistent with debt interest costs and gives consideration to applicant's debt-equity ratio for the test years 1984, 1985, and 1986.

Exhibit 10, a memorandum prepared by a Commission staff (staff) financial examiner, states that the 13.5% debt rate is inappropriate; Park has not required external financing for some time and anticipates no borrowings in the near future as indicated in Park's rate application (A.) 83-09-47; Park supplies advances to applicant with internally generated funds; Park has recently borrowed funds from the Security Pacific Bank at a 12% interest rate, which was 1% over the prime rate; a 12% rate for those funds is appropriate; the Commission should adopt the same capital ratio, based on applicant's 1984 capital structure and costs, for the three test years. In addition to debt costs, he considered current economic conditions, interest rate trends, and recent rates of returns authorized by the Commission for similar water utilities in arriving at his recommended return of 13.20% on applicant's equity; that return on equity is the rate he recommended for Park in A.83-09-47 and it would be reasonable for the Commission to adopt a 13.2% return on equity in this proceeding.

In D.84-05-058 dated May 16, 1984 in Park's A.83-09-47, we adopted the staff's recommendation for use of an average capitalization for 1984, 1985, and 1986, a 9.5% cost of debt and 13.20% return on equity.

In this decision we will also adopt the staff recommendation for a three-year average debt-equity ratio (a 38:62 ratio) for applicant. We find this reasonable since applicant's capitalization is tied to its need for funds supplied by Park. These advances are recorded as debt and are increasing over the three-year period, while equity is decreasing. To avoid skewing the return on equity that would otherwise result, we will adopt an average capitalization.

We will adopt a debt cost factor of 13.07% which is the average of applicant's estimated composite debt costs for 1984-1986. This average is composed of the weighted cost of allocated common plant at a cost of 9.50% which is Park's embedded debt cost for the common facilities, and advances from Park at 13.50%. Our use of the 13.50% rate for funds advanced by Park is substantially higher than Park's embedded cost of debt of 9.5%; however, we note that Park has not issued debt for a number of years and this cost may not reflect current conditions. For example, last year, Park borrowed from Security Pacific at the prime rate of 11.0, plus 1.0%. Staff recommends that we use Park's bank loan as indicative of the current cost of funds advanced by Park. Our adoption of the 13.50% rate assumes that the prime rate over the three-year rate life of this decision will average 12.5%. We believe that 13.50% is reasonable cost for the funds advanced by Park, since applicant does not generate any funds internally and if it had to issue debt of its own, the cost would likely be substantially higher.

We are adopting a return on equity for applicant of 13.60% which is higher than the 13.20% authorized for its parent Park. In doing this, we recognize that applicant has substantially less equity than its parent (62% compared to Park's 70%), that it has

a service territory that is essentially static, with no growth over the last several years, and that it is facing a substantial need for system improvements and upgrades over the next three years. We expect to see these improvements made and authorize this higher return in the expectation that applicant will file its improvement plan and undertake the improvements on schedule. In the absence of satisfactory compliance, applicant is placed on notice that the return may be reduced to zero. In issuing this caution, we note that applicant has estimated

annual plant expenditure levels of $72,000,[1/] including $25,000 of contributed plant, are extremely modest compared to applicant's estimate of approximately $3,000,000 for needed plant replacements and/or improvements.

Hearings

After notice, consolidated public meeting and public witness hearings were held before Administrative Law Judge Levander in Los Angeles on March 19, 20, and 21, 1984. The matter was submitted subject to receipt of an opening staff brief and applicant's closing brief on rate of return issues. These briefs have been received. No public witness appeared. Four letters protesting the increase were received, including a letter from the mayor of Compton, which is discussed in this decision. Other issues raised allege applicant is not properly maintaining the system, e.g. it is not repairing holes in alleys where meters are located; the utility has ignored requests to install a meter box cover at 14325 Atlantic Boulevard for over one year; there is inadequate water pressure and inadequate fire protection (a business was destroyed by fire due to the lack of water pressure); and the water quality is unsatisfactory.

Applicant is responsible for repairs in alleys or easements due to its construction activities. We cannot ascertain responsibility for repair of the holes mentioned in the letter. But applicant should not leave open meter boxes unrepaired.

1/ Applicant agreed to increase its 1984 plant expenditures sufficiently to offset the $2,449 average rate base impact of an omitted well site retirement.

Results of Operations

During the course of the hearing applicant and the staff reached agreement on a number of differences in their respective estimates of applicant's operating results (aside from rate-of-return issues) for the test years 1984, 1985, and 1986. As a result:

1. The amounts in dispute have been narrowed to the revenue and expense estimates which track water consumption per metered public authority customer at present rates and reductions in sales due to price elasticity at proposed rates. Both applicant and the staff are using a 10% allowance for unaccounted for water.

2. Applicant and the staff are in agreement that the escalation factors developed by the staff should be used in projecting operating expenses for the years 1984, 1985, and 1986.

3. Applicant accepts in virtually all other respects the staff estimates of revenues, expenses, and rate base.

In Tables 1, 2, and 3, which follow, the results for the test years and the operating results we adopt for applicant are set forth. As noted above, a portion of these increases are deferred.

TABLE 1

UEHLING WATER COMPANY
1984 Summary of Earnings

	1984 Present Rates	Adopted Rates
Operating Revenue	$163,924	$292,200 a/
Operating Expenses:		
Purchased Water	227,358	227,358
Lease Credits	(138,603)	(138,603)
Net Production Cost	88,755	88,755
Operation & Maintenance without Uncollectibles	47,489	47,489
Uncollectibles	2,459	4,383
Admin. and General without Franchise	50,505	50,505
Franchise	1,475	2,630
Taxes Other Than Income	7,022	7,022
Depreciation	12,075	12,075
Income Tax	5	32,381
Total Deductions	209,785	245,240
Net Operating Revenue	(45,861)	46,960
Depreciated Rate Base	350,402	350,402
Rate of Return	(Loss)	13.40%

(Red Figure)

a/ A portion of this increase is deferred.

TABLE 2

UEHLING WATER COMPANY
1985 Summary of Earnings

	1985 Present Rates	Adopted Rates
Operating Revenue	$163,924	$303,611
Operating Expenses:		
Purchased Water	227,358	227,358
Lease Credits	(138,603)	(138,603)
Net Production Cost	88,755	88,755
Operation & Maintenance without Uncollectibles	49,559	49,559
Uncollectibles	2,510	4,554
Admin. and General without Franchise	52,491	52,491
Franchise	1,581	2,732
Taxes Other Than Income	7,526	7,526
Depreciation	12,509	12,509
Income Tax	5	35,198
Total Deductions	214,936	253,324
Net Operating Revenue	(51,012)	50,287
Depreciated Rate Base	375,321	375,321
Rate of Return	(Loss)	13.40%

(Red Figure)

TABLE 3

UEHLING WATER COMPANY
1986 Summary of Earnings

	1986 Present Rates	Adopted Rates
Operating Revenue	$163,924	$315,800
Operating Expenses:		
Purchased Water	227,358	227,358
Lease Credits	(138,603)	(138,603)
Net Production Cost	88,755	88,755
Operation & Maintenance without Uncollectibles	51,991	51,991
Uncollectibles	2,546	4,737
Admin. and General without Franchise	55,068	55,068
Franchise	1,613	2,842
Taxes Other Than Income	8,075	8,075
Depreciation	13,343	13,343
Income Tax	5	37,530
Total Deductions	221,396	262,341
Net Operating Revenue	(57,472)	53,459
Depreciated Rate Base	398,823	398,823
Rate of Return	(Loss)	13.40%

(Red Figure)

Water Sales

At present rates, applicant developed its estimates of annual water sales using a multiple regression analysis method which trends water use over time and gives consideration to variations in temperature and rainfall conditions between the period analyzed and long-term average weather conditions. Applicant analyzed bimonthly recorded water sales and weather data from 1980 to 1983 and developed annual commercial metered uses per customer of 220 hundred cubic feet (Ccf), 227 Ccf, and 234 Ccf for 1984, and 1985, and 1986, respectively; and per customer public authority use of 2,799 Ccf for each of the test years. Its comparable estimates of flat rate annual uses are 210 Ccf, 217 Ccf, and 223 Ccf for the three test years.

The staff followed the "Committee Method" for application of our previously adopted Standard Practice U-25 and levelized the use per metered and flat rate commercial customer at 230 Ccf for each of the three test years. Its estimate of annual use per public authority customer is 3,200 Ccf.

Applicant stipulated to the staff-estimated use per customer except for public authority uses. In that category we will adopt applicant's annual estimate which is based on climatological adjustments to water use. The staff witness did not explain why he did not make climatological adjustments in his estimate.

Applicant developed revenue requirements based on those sales levels at proposed rates. For 1984, the increase of approximately $161,900 is 98.7% above present rates. But applicant tailored its proposed rates to reflect a reduction in water use due to price elasticity as described on pages 50

and 51 of its revenue requirement study (Exhibit 1), included in its application, as follows:

"Rate Adjustment for Elasticity

"A recent study of water use in a Southern California area following several smaller rate increases and a rate increase in excess of 100% has shown no measurable change in water usage resulting from smaller increases, but a significant reduction in water usage following the large increase. Considering only the increase in the tail usage block, for a 100% increase in the usage rate, actual usage was found to decrease by approximately 15%. In technical elasticity terms, this means the price elasicity (sic) of water sales is equal to -.15. Therefore, to meet the total revenue requirements, it is necessary to increase rates still further to compensate for this projected reduction in usage. The required additional increase for the Uehling Water Company is less than proportional to .15 times the percentage increase in rates because of a partially offsetting reduction in the cost of purchased water.

"The tail block rate for general metered service, disregarding price elasticity, was computed to be $.543 per Ccf which represented an increase of 103% over the present tail block rate of $.268 per Ccf. By solution of a quadratic equation, it was possible to compute the tail block rate at which the expected reduction in revenues resulting from the reduction in water usage was exactly offset by the reduction in purchased water costs resulting from the reduced requirement for purchased water volumes because of the reduction in water sales."

* * *

"The rate computed for Test Year 1984 was $.563 per Ccf for the tail block with a corresponding lifeline block rate of $.450 per Ccf. These rates are approximately 3.7% higher than the rates computed without recognition of elasticity as shown on Table 12-5. General metered rates proposed incorporate this elasticity adjustment.

"Because of the changing relationships between the incremental cost of additional water supply and different tail block usage rates, any other tail block usage rate adopted in this proceeding will require a different percentage elasticity adjustment. The reason for the different adjustment is that higher usage rates result in greater reductions in water usage with the offsetting reduction in purchased water cost becoming a smaller percentage of the reduction in revenues. Required elasticity adjustments for different adopted tail block rates are as shown in Table 12-6.

TABLE 12-6. COMPUTATION OF USAGE RATES ADJUSTED FOR ELASTICITY

Computed Tail Block Rate, $/Ccf	Percent Increase	Elasticity Adjustment, Percent	Adjusted Tail Block Rate, $/Ccf	Adjusted 1st Block Rate, $/Cff
.45	67.9	.2	.451	.361
.50	86.6	1.3	.507	.406
.55	105.2	3.6	.570	.456
.60	123.9	7.0	.642	.514
.65	142.5	11.0	.722	.577
.70	161.2	17.0	.819	.655
.75	179.9	26.0	.945	.756
.80	198.5	54.0	1.232	.986

"It is believed that the usage rates computed in this manner, which provide for tail block general service usage rates which are approximately 27% greater than the cost of providing incremental water supply, meet the customer rationing objective discussed previously. This computation was based on the incremental cost of purchased water from Park Water Company which was computed to be $.444 per Ccf."

Applicant's rate-elasticity study reflected the impact of a 122% increase in water rates authorized in D.82-06-012 dated November 3, 1981 for Park's Vandenberg water division for 1982. Park was able to isolate domestic irrigation uses from total domestic uses through records of sewage flows maintained for its Vandenberg sewer system operations. Its initial study, referred to above, reflected a one-year decline in its Vandenberg customers' water use. This study was sent to the Commission's Revenue Requirements and Policy and Planning Divisions; however, it was not made a part of its filing in this proceeding and it was neither furnished to nor requested by the staff witness analyzing this portion of applicant's request. At the time of hearing, applicant provided testimony on Exhibit 6, an updated rate-elasticity study reflecting two years of operations at higher Vandenberg Division water rate levels (D.82-06-012 also conditionally authorized two annual step increases to offset operational attrition). Exhibit 6 predicts a 13% reduction in per customer use at applicant's proposed rates.

Applicant states that the Vandenberg community is relatively affluent, unlike the Compton community. By letter, the mayor of Compton objected to the proposed increases because of the extreme hardship it would place on those who can least afford an increase, particularly elderly and handicapped people. His letter referred to a 1983 State Department of Finance report stating that 97.4% of Compton's population are members of minority groups and 26.4% of the population are living below the poverty level. He asserts that the majority of Compton's

population has not benefited from the nation's economic recovery and Compton's unemployment rate is still more than twice the national average.

In response to the Compton letter, Conway states that houses and lawns within applicant's service area are well kept and neat; that the area should not be considered as a slum or as an area with low economic standards; conditions in applicant's service area are above average compared to Compton. He argues that there is an inconsistency between Compton's policy in annually revising its municipal water department rates to be fully compensatory[2/] and its objections to applicant's proposed rates.

Conway's analysis is an innovative approach to measuring the effect of price elasticity on sales following a very large rate increase and to designing a rate to avoid adverse impacts on its earnings. Due to the availability of data on sewage flows from the Vandenberg Village, Conway was able to determine that household uses in that area did not vary significantly due to the rate increase, but there was a 21% reduction in home irrigation uses. The Commission's Policy and Planning Division reviewed the initial study and developed its own econometric study which concludes that water use would drop more than indicated in applicant's original study. Applicant obviously could not fulfill a staff proposal that applicant submit a rate elasticity study similar to the Vandenberg study for applicant's service area

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2/ Conway anticipates a further increase in Compton's water rates. Exhibit 4 shows that Compton's present rates exceed applicant's present rates and are close to applicant's proposed rates.

before authorization of an increase. Furthermore, relative household and irrigation uses in applicant's service area vis-a-vis Vandenberg uses were not and possibly cannot be established for applicant's customers. In addition, there are major differences in economic circumstances between typical customers in the two service areas. (Conway's characterization of applicant's service area cannot be construed to infer that applicant's service area is an affluent community.)

Even if we accepted the applicability of the above-quoted discussion for applying Vandenberg Village elasticity to applicant's customers, the price induced curtailments in use would not be triggered by the magnitude of the authorized increases in total or in the second block quantity rates adopted for 1984. We will adopt the same use per metered residential customer for the three test years to offset any impact of declining sales resulting from this decision. This method follows the staff recommendation for use of the "Committee Method" for application of our previously adopted Standard Practice U-25. This record does not have a comprehensive staff analysis of applicant's approach for estimating the impact of price elasticity in water use associated with large rate increases. However, the standard practice provides a reasonable result for the rate increases authorized in this decision. There is no issue on applicant's estimates of metered and flat rate customers for each of the test years. Applicant is metering 75 flat rate customers per year. Tables 1, 2, and 3 show revenues at present and authorized rates for the three test years.

Cost of Purchased Water
and Purchased Power

As a result of applicant's efforts to repair or replace badly leaking mains, the percentage of unaccounted for system water has been reduced from 20% to 10%. We find the later percentage, used by applicant and the staff, to be reasonable for determining the quantity of purchased water which in turn affects applicant's replenishment and pumping costs.

A staff witness testified that applicant did not respond to his data request to explain the lease credit methodology it used to reduce applicant's purchased water costs; i.e. he was unaware that applicant's contract to lease water rights from Dominguez expires in 1984. However, he testified that the methodology used by applicant in Exhibit 7 fairly apportions production costs between applicant and Park based on the methodology described above. His suggestion that Park allocate a portion of its adjudicated pumping rights to applicant to reduce applicant's costs would unfairly penalize Park's customers. The adopted purchased water costs and lease credits shown in tables 1, 2, and 3 reflect increases in CBMWD rates, purchased power rates, and replenishment charges between the hearing dates and July 1, 1984.

Rate Design

Applicant provides all of the water used by La Hacienda Water Company (mutual) for resale purposes. Applicant proposes to establish a limited resale service schedule with service sizes varying with meter charges and two quantity rate blocks. The proposed initial rate block covers consumption up to 2,500 Ccf. A staff witness testified that mutual should bear a fair share of the authorized increases, but the increases should not be excessive lest mutual seek an alternate water supplier. Applicant did not object to the staff proposal that the general metered tariff proposal contain a third rate block with a rate between the lifeline block rate and second block rate. The staff recommends adoption of a third block rate within 10% of CBMWD rates. To the extent adopted rates approach the CBMWD rates, that approach is reasonable. In addition, a special condition should limit the applicability of the third block rate to mutual.

The staff concludes that applicant's rate design proposal is in conformity with the Commission's model rate structure policy for general metered service. The adopted rates reasonably apportion the increases between service charges and commodity charges in approximately equal percentages. Flat rate charges for a 3/4-inch residential service or for the initial unit of multiple residential service should be equal to the billing for a metered residential service at an average monthly consumption of 25 Ccf.

Replacement Program

Fahd Rizk, a sanitary engineer representing the DHS, stated that the DHS concurred with the following staff conclusions and recommendation:

> "10.5 A portion of the utility's distribution system consists of old and undersized mains causing leakage and water quality problems. These mains need replacing.
>
> "10.6 It is recommended that the utility develop a main replacement program as requested by the Health Department to replace the existing old and undersized mains."

Rizk stated that applicant submitted a plan to the DHS, but it did not include a timetable for implementation of the plan; applicant's proposed expenditures of $10,000 per year for main replacements in 1984, 1985, and 1986 are inadequate and need to be increased to handle main leakage problems. He had no specific recommendation concerning main replacement scheduling.

In response, Conway testified that he recognizes the need for the replacement program; he concedes that the plant additions proposed by applicant do not meet DHS's full requirements; applicant has tried to balance the proposed rate increase against customer benefits from the additions; applicant could not afford to pay approximately $3 million for those improvements and its customers could not afford the rate increase resulting from such construction unless the construction program was spread out.

Conway also stated that after Park purchased applicant its initial efforts were aimed at "tightening up the system" by installing needed main replacements and repairing leaks, applicant plans to meter its remaining flat rate customers by 1987 and to replace old meters.

A staff witness supported applicant's program to reduce leaks and to install meters; he concurs with applicant's plans to complete its metering program before increasing amounts invested in main replacements.

On November 30, 1983 the Commission notified water utilities under its jurisdiction to provide public notice to their customers and to the Commission concerning proposed plant additions which would result in large rate increases (excluding expenditures to rectify emergency repairs or conditions). Such notice is intended to afford the public with an opportunity to comment on going forward with proposed construction or on alternatives to the utilities' proposal, including a trade-off of retaining poor quality (but not unsafe) service rather than pay for the proposed improvements through increases in rates.

Implementation of the replacement program could provide all needed improvements in fire flows and pressures but at great cost. A $3,000,000 investment in new plant would increase applicant's rate base to almost 10 times its present level. This in turn would generate a revenue requirement at authorized rates which could quadruple authorized 1986 rates.

Conway's suggestion to spread out the improvement program is needed to avoid untenable rate increases. The amount of increases could be reduced if applicant obtained a source of low cost funding; e.g. through use of Safe Drinking Water Bond Act Funds. Applicant needs to set priorities in eliminating low pressure conditions and insufficient fire flows. Applicant should develop and file its plant improvement plan and a scheduling plan with the Commission staff and file its scheduling plan with the DHS. The scheduling needs to be flexible since some replacements of badly deteriorated plant may have to be installed under emergency conditions. But applicant should lay out its best estimate of scheduling to eliminate specific deficiencies. Prior to finalizing its plans applicant should attempt to establish a dialogue with its customers to weigh needs, costs, and rate impacts. The scheduling filing should be accompanied by a summary of customer reactions to its proposals and a summary of alternate customer proposals. Applicant should also review its preliminary proposal with the DHS and our staff. This filing should be made within 180 days after the effective date of this order. Applicant should file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

Findings of Fact

1. Park employees operate and maintain applicant's water system. Park provides billing, financial, engineering, and administrative services to applicant. This method of operating provides service to applicant at reasonable cost.

2. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return shown on tables 1, 2, and 3 are reasonable.

3. Applicant relies on Park's ability to obtain funds to meet applicant's financial requirements. It is reasonable to allocate a portion of Park's 9.5% debt cost to applicant on common plant. It is reasonable to estimate applicant's remaining debt of 13.5% based on Park's short-term borrowing costs. A return on equity of 13.6% is reasonable. The capital ratios and capital costs adopted above are reasonable. A 13.40% overall rate of return is reasonable.

4. Large portions of applicant's water distribution system are old and undersized. Pressures in portions of the system fall below our present minimum standards during periods of peak water use. Fire flows in portions of applicant's system are below present minimum standards.

5. Applicant should file its system replacement and improvement plan and scheduling for construction, along with the comments and recommendations of its customers and in

consultation with the DHS and our staff in conformity with our discussion. Applicant should file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

6. Application of a 50% annual general rate increase cap would mitigate the impact of the increase on applicant's customers.

7. The increases in rates and charges authorized in Appendix A are just and reasonable; and the present rates and charges, insofar as they differ from those prescribed, are for the future unjust and unreasonable.

8. The adopted quantities and the adopted tax calculation used to develop the summary of earnings in this decision are shown in Appendices B and D.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. It is reasonable to consider applicant as a division of Park to arrive at an annual rate increase cap to mitigate the impact of the increase on applicant's customers.

3. If there is sufficient customer support for accelerating the present pace of applicant's improvement and replacement program discussed in Finding 6, applicant may seek further rate relief by advice letter.

4. Because of the immediate need for rate relief the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Uehling Water Company shall:

   a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 4 days after filing.

   b. File the system replacement and improvement plan and scheduling for construction, along with the comments of its report in conformity with Finding 6 within 180 days after the effective date of this order. Applicant shall file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

   c. In the absence of satisfactory compliance the rate of return authorized here may be reduced. Any reduction shall be reflected in the rates authorized in Ordering Paragraph 2.

2. On or after August 15, 1985 applicant is authorized to file an advice letter, with appropriate work papers, requesting the initial step rate increase attached to this order in Appendix A or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the 12 months ended June 30, 1985, exceeds the 13.40% rate of return found reasonable in this decision. Such filing shall comply with General Order 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date

of the revised schedule shall be no earlier than October 1, 1985, or 30 days after the filing of the initial step rates, whichever is later.

3. On or after August 15, 1986 applicant shall file an advice letter, with appropriate work papers, requesting the second step rate decrease attached to this order in Appendix A or to file a greater decrease which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the 12 months ended June 30, 1986, exceeds the 13.40% rate of return found reasonable in this decision. Such filing shall comply with General Order 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the decrease. The effective date of the revised schedule shall be no later than October 1, 1986, or 30 days after the filing of the second step rates, whichever is later.

4. The application is granted as set forth above.
This order is effective today.
Dated NOV 7 1984, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

SCHEDULE NO. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Compton and vicinity, Los Angeles County.

RATES

Service Charge:	Per Meter Per Month	Eff. 10-1-85	Eff. 10-1-86
For 5/8 x 3/4-inch meter	$ 5.30 (I)	$ 7.65 (I)	$ 6.80 (R)
For 3/4-inch meter	7.10 |	10.30 |	9.15 |
For 1-inch meter	9.70 |	14.05 |	12.45 |
For 1½-inch meter	13.00 |	18.80 |	16.65 |
For 2-inch meter	17.50 |	25.30 |	22.45 |
For 3-inch meter	30.00 (I)	43.40 (I)	38.50 (R)
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.	$ .280 (I)	$ .406 (I)	$ .360 (R)
Over 300 cu.ft., per 100 cu.ft.	.420 (I)	.608 (I)	.539 (R)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the charge computed at the Quantity Rates, for water used during the month. (T)

APPENDIX A
Page 2

SCHEDULE NO. 2L

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to only those flat rate water service customers and premises served as of July 1, 1974.

TERRITORY

Compton and vicinity, Los Angeles County.

RATES	Per Service Connection Per Month		Eff. 10-1-85		Eff. 10-1-86	
1. For a single-family residential unit, or a commercial unit, or the first unit of a duplex, triplex, trailer court or apartment, including premises not exceeding 1/4 acre and served from a:						
3/4-inch service connection	$ 8.70	(I)	$ 12.60	(I)	$ 11.15	(R)
1-inch service connection	12.20	|	17.65	|	15.65	|
1½-inch service connection	17.55	|	25.40	|	22.50	|
2-inch service connection	26.40	(I)	38.20	(I)	33.90	(R)
a. For each additional residential unit or commercial unit on the same premises and served from the same service connection	4.65	(I)	6.75	(I)	6.00	(R)
b. For each additional unit of a duplex, triplex or apartment on the same premises and served from the same service connection	3.90	(I)	5.65	(I)	5.00	(R)
c. For each trailer unit on the same premises and served from the same service connection	1.95	(I)	2.80	(I)	2.50	(R)
d. For each swimming pool	5.85	(I)	8.45	(I)	7.50	(R)
e. For each 1/4 acres, or fraction thereof, of premises in excess of 1/4 acre	4.65	(I)	6.75	(I)	6.00	(R)

SCHEDULE NO. 2L

LIMITED FLAT RATE SERVICE

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis.

2. For service covered by the above classifications, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.

SCHEDULE NO. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Compton and vicinity, Los Angeles County.

RATE

	Per Month	Eff. 10-1-85	Eff. 10-1-86
For each inch of diameter of the service connection	$ 6.15 (I)	$ 8.90 (I)	$ 7.90 (R)

SPECIAL CONDITIONS

1. The customer shall pay, without refund, the entire cost of installing the fire protection service connection. Such service connection shall become and remain the property of the utility.

2. The minimum diameter of the connection for fire protection service will be 4 inches and the maximum diameter will be the diameter of the main to which the service is connected.

3. The customer's installation must be such as effectively to separate the fire protection system from all of the customer's other piping systems. The installation shall include a detector type meter or other similar device acceptable to the utility.

4. No cross connection between the fire protection system and any source of supply other than that of the utility will be allowed without specific approval of the utility. Such approval will not be forthcoming until a double check valve installation, or other device acceptable to the utility, has been installed at the customer's expense. Unauthorized cross connections may be grounds for immediate discontinuance of service without liability to the utility.

5. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

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

SCHEDULE No. 5-A

PUBLIC FIRE HYDRANT SERVICE FOR COMPTON

APPLICABILITY AND TERRITORY

Applicable to all fire hydrants located within the city boundaries of Compton.

RATE

	Per Month	Eff. 10-1-85	Eff. 10-1-86
For each hydrant	$ 5.25 (I)	$ 7.60 (I)	$ 6.75 (R)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

2. The installation of fire hydrants shall be mutually agreed upon but shall be done only upon written approval from Fire Agency, designating the number, type, and location of such additional fire hydrants. No extensions to the water mains of Water Purveyor will be required of Water Purveyor for the purpose of serving fire hydrants in addition to those fire hydrants now installed unless such main extension is paid for by developers or parties other than Water Purveyor.

Installation of hydrants to serve land divisions, land developments or special land uses is the responsibility of the developer at no cost to either Fire Agency or Water Purveyor.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation, or as agreed upon between Dominguez and the fire protection entity, in accordance with Section VIII.4. of General Order No. 103.

4. From facilities installed prior to the amendment to General Order No. 103 by Decision No. 84334, dated April 15, 1975, the utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

From facilities installed after April 15, 1975, the utility, under normal operating conditions, shall supply water service for fire protection in accordance with Section VIII.1.a. of General Order No. 103 unless otherwise authorized by the Commission.

SCHEDULE NO. 6

LIMITED METERED RESALE SERVICE (M)

APPLICABILITY

Applicable to limited metered resale service.

TERRITORY

Compton and vicinity, Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month		Eff. 10-1-85		Eff. 10-1-86	
First 300 cu.ft., per 100 cu.ft.	$ .280	(M)	$ .405	(I)	$ .360	(R)
From 301 cu.ft. to 250,000 cu.ft., per 100 cu.ft.	.400	|	.579	|	.515	|
Over 250,000 cu.ft., per 100 cu.ft.....	.420	(M)	.608	(I)	.540	(R)

Service Charge:

For 3-inch meter	$30.00	(M)	$ 43.45	(I)	$ 38.55	(R)
For 4-inch meter	40.00	|	57.90	|	51.35	|
For 6-inch meter	70.00	(M)	101.35	(I)	89.90	(R)

The Service Charge is a readiness-to-serve charge applicable to all general metered service and to which is to be added the charge computed at the Quantity Rates, for water used during the month.

(END OF APPENDIX A)

ADOPTED QUANTITIES

Name of Company - Uehling Water Company

Net-to-Gross Multiplier - 2.10
Uncollectible Rate - 1.5%
Franchise Tax Rate - 0.9%

1. Purchased Water
   Quantity Ac.Ft. - 983
   Purchased Price/Ac.Ft. - $231.29
   Effective Date - 7/1/84
   Leased Credit Rate/Ac.Ft. - $141.00

2. Purchased Power
   Quantity Pumped Ac.Ft. - 10.00
   Pumping Cost - $524.00
   kWh - 3890
   Effective Sch. Date - 7/1/84
   $/kWh Used - $0.07294

3. Water Consumption Per Customer
   Commercial Metered - 230 Ccf
   Commercial Flat Rate - 230 Ccf
   Public Authority - 2799 Ccf
   Resale - 38,350 Ccf

ADOPTED SERVICE BY METER SIZE

	1984	1985	1986
5/8" x 3/4"	1139	1214	1289
3/4"	1	1	1
1"	75	75	75
1½"	10	10	10
2"	7	7	7
Commercial Metered	1232	1307	1382
Commercial Flat - 3/4"	196	121	46
Public Authority - 2"	8	8	8
Resale - 3"	1	1	1
Private Fire	1	1	1
	1438	1438	1438

ADOPTED QUANTITIES

Name of Company - Uehling Water Company

	Test Year 1984			Test Year 1985			Test Year 1986		
		Usage Ccf/Cust	Usage Ccf.		Usage Ccf/Cust	Usage Ccf.		Usage Ccf/Cust	Usage Ccf.
Commercial Metered	1232	230	283,360	1307	230	300,610	1382	230	317,860
Commercial Flat	196	230	45,080	121	230	27,830	46	230	10,580
Public Authority	8	2799	22,392	8	2799	22,392	8	2799	22,392
Resale	1	38350	38,350	1	38350	38,350	1	38350	38,350
			389,192			389,182			389,182
Water Loss 10%			43,242			43,242			43,242
Total Water Ccf			432,424			432,424			432,424
Total Water Ac.Ft.			993			993			993
Water Pumped Ac.Ft.			10			10			10
Water Purchased Ac.Ft.			883			883			883

Metered Water Sales Used to Design Rates - Usage Ccf

Range	Ccf	1984	1985	1986
Block 1	0 - 3	43,364	46,064	47,764
Block 2	Over 3	257,086	271,636	286,186

Limited Metered Resale Service

Range	Ccf	1984	1985	1986
Block 1	0 - 3	36	36	
Block 2	4 - 2500	29,964	29,964	29,964
Block 3	Over 2500	8,350	8,350	

(END OF APPENDIX B)

APPENDIX C

UKIAH WATER COMPANY
COMPARISON OF MONTHLY CUSTOMER BILLS
AT PRESENT AND ADOPTED GENERAL
METERED RATES FOR A 5/8 X 3/4 INCH METER

Usage Ccf	Present Rates	Adopted Rates	Amount Increase	Percent Increase
0	$ 3.50	$ 5.30	1.8	51
3	4.16	6.14	1.98	48
10	6.04	9.08	3.04	50
20	8.72	13.28	4.56	52
30	11.40	17.48	6.08	53
50	16.76	25.88	9.12	54
100	30.16	46.88	16.72	55
		Effective 10-1-85		
0	5.30	7.65	2.35	44
3	6.14	8.87	2.73	44
10	9.08	13.12	4.04	44
20	13.28	19.20	5.92	45
30	17.48	25.28	7.80	45
50	25.88	37.44	11.56	45
100	46.88	67.84	20.96	45
		Effective 10-1-86		
0	7.65	6.80	(0.85)	(11)
3	8.87	7.88	(0.99)	(11)
10	13.12	11.65	(1.47)	(11)
20	19.20	17.04	(2.16)	(11)
30	25.28	22.43	(2.85)	(11)
50	37.44	33.21	(4.23)	(11)
100	67.84	60.16	(7.68)	(11)

(Red Figures)

(END OF APPENDIX C)

APPENDIX D

UKIAH WATER COMPANY

Income Tax Calculations on Consolidated Basis
at Authorized Rates for the Test Years
1984, 1985 and 1986

	Test Years		
	1984	1985	1986
Operating Revenues	$292,200	$303,611	$315,800
Deductions:			
O&M Expenses	140,627	142,868	145,483
A&G Expenses	53,135	55,223	57,910
Taxes Other Than Income	7,022	7,526	8,075
Interest	15,000	15,630	16,580
Subtotal	215,784	221,247	228,048
State Taxable Income Before Deprec.	76,416	82,364	87,752
State Tax Depreciation	12,255	12,795	13,610
State Taxable Income	64,161	69,569	74,142
State Tax @ 9.6%	6,159	6,679	7,118
Federal Tax Depreciation	12,075	12,509	13,343
Federal Taxable Income	58,182	63,176	67,291
Tax on Consolidated Basis @ 46%	26,764	29,061	30,954
Credit for Less Than $100,000	(542)	(542)	(542)
Consolidated FIT	26,222	28,519	30,412
Total Taxes on Income	32,381	35,198	37,530

(Red Figures)

(END OF APPENDIX D)

APPENDIX E

UEHLING WATER COMPANY

THREE TEST YEARS - 50% CAP

Item	Adopted	Adjustment	CAPS
1984			
Present	$163,924		$163,924
Proposed	292,200		245,886
Increase	128,276-78.3%		81,962-50%
1985	Eff. Date Oct. 1, 1985		
Present	$292,200		$245,886
Proposed	303,611	$46,314+6206	356,131
Increase	11,411-3.3%		110,245-44.8%
1986	Eff. Date Oct. 1, 1986		
Present	$303,611		$356,131
Proposed	315,800		315,800
Increase	12,189-4.0%		(40,331)-(11.3)%

COMPUTATIONS

Deferred Amount

$128,276 - $81,962 = $46,314

Interest

$46,314 x 13.4% = $6,206

Accumulated Revenues

	Adopted	CAPS	Difference
1984-1986	$911,611	$917,817	$6,206

(Red Figures)

(END OF APPENDIX E)

The Commission has established annual caps on water utility rate increases which are 50% for Class A water utilities and 100% for Classes B, C, and D water utilities. In this instance, we have treated applicant as a division of its parent, Park Water Company (Park), a Class A water utility. Applicant is totally dependent on Park for operating its system and for supplying all of its capital. In adopting a 50% rate increase cap for applicant, we have considered that applicant's service area is in a portion of the City of Compton (Compton) and in adjacent unincorporated areas; Compton residents are experiencing extremely high, persistent unemployment rates and high percentages of Compton residents have income levels below the federal poverty line; an initial water rate increase of 77.9% may create hardships for applicant's customers. The deferred increases plus interest at the 13.4% rate of return authorized in this decision are designed to gradually increase applicant's rates.

Applicant proposed step increases to offset operational and financial attrition. In adopting the same capital structure and rate of return for the three test years, we have eliminated financial attrition. The step rates adopted allow for operational attrition.

Under the rate increase cap, applicant's effective rate increases are $81,962 or 50.0% in 1984; $110,245 or 44.8% in 1985, and a rate reduction of $40,331 or 11.3% in 1986. The rate decrease ensures that within the three-year rate case cycle, the overall rate increases are brought back to the levels authorized. Appendix E details how the rate increase cap was calculated.

In D.84-05-058 dated May 16, 1984 in Park's A.83-09-47, we adopted the staff's recommendation for use of an average capitalization for 1984, 1985, and 1986, a 9.50% cost of debt, and a 13.20% return on equity. We did not accept Park's contention that its requested 15.0% return on equity is related to interest requirements of "Baa" debt.

Applicant's capitalization is tied to its need for funds supplied by Park. Absent any proposed new equity or debt issued by applicant or Park, we find it reasonable to adopt the staff proposal to use a three-year average debt-equity ratio (a 38:62 ratio) for applicant. In addition, we will adopt a debt cost factor of 13.07% which is the average of applicant's estimated composite debt costs for 1984 to 1986; and an equity cost factor of 13.60%. We have given consideration to increases in debt costs since the time of hearing. The adopted average consists of the weighted cost of allocated common plant at 9.50% and advances from Park at 13.50%. Since Park has not issued debt for a number of years the staff's use of Park's bank loan cost for funds advanced by Park is reasonable. Our use of a 13.5% rate for funds advanced by Park assumes that the three-year average prime rate will on average be 0.5% below its present 13.0% level. We have considered applicant's projection of limited construction capital needs at this time; its high equity ratio, the absence of any capital requirement to refund advances for construction, and its debt cost in adopting an equity cost of 13.60%. Applicant has not justified the estimated increases in its debt. Applicant operates a system which has experienced no customer growth for several years. Its estimated

Conway's suggestion to spread out the improvement program is needed to avoid untenable rate increases. The amount of increases could be reduced if applicant obtained a source of low cost funding; e.g. through use of Safe Drinking Bond Act Funds. Applicant needs to set priorities in eliminating low pressure conditions and insufficient fire flows. Applicant should develop and file its plant improvement plan and a scheduling plan with the Commission staff and file its scheduling plan with the DHS. The scheduling needs to be flexible since some replacements of badly deteriorated plant may have to be installed under emergency conditions. But applicant should lay out its best estimate of scheduling to eliminate specific deficiencies. Prior to finalizing its plans applicant should attempt to establish a dialogue with its customers to weigh needs, costs, and rate impacts. The scheduling filing should be accompanied by a summary of customer reactions to its proposals and a summary of alternate customer proposals. Applicant should also review its preliminary proposal with the DHS and our staff. This filing should be made within 180 days after the effective date of this order. Applicant should file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

Findings of Fact

1. Park employees operate and maintain applicant's water system. Park provides billing, financial, engineering, and administrative services to applicant. This method of operating provides service to applicant at reasonable cost.

2. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return shown on tables 1, 2, and 3 are reasonable.

3. Applicant relies on Park's ability to obtain funds to meet applicant's financial requirements. It is reasonable to allocate a portion of Park's 9.5% debt cost to applicant on common plant. It is reasonable to estimate applicant's remaining debt of 13.5% based on Park's short-term borrowing costs. A return on equity of 13.6% is reasonable. The capital ratios and capital costs adopted above are reasonable. A 13.40% overall rate of return is reasonable.

4. There is a high unemployment rate and a high percentage of persons with incomes below the poverty level in Compton. Applicant's service area, located in a portion of Compton and in adjacent unincorporated territory, is adjacent to Park's Central Basin District.

5. Large portions of applicant's water distribution system are old and undersized. Pressures in portions of the system fall below our present minimum standards during periods of peak water use. Fire flows in portions of applicant's system are below present minimum standards.

6. Applicant should file its system replacement and improvement plan and scheduling for construction, along with the comments and recommendations of its customers and in

consultation with the DHS and our staff in conformity with our discussion. Applicant should file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

7. Applicant of a 50% annual general rate increase cap would mitigate the impact of the increase on applicant's customers.

8. The increases in rates and charges authorized in Appendix A are just and reasonable; and the present rates and charges, insofar as they differ from those prescribed, are for the future unjust and unreasonable.

9. The adopted quantities and the adopted tax calculation used to develop the summary of earnings in this decision are shown in Appendices B and D.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. It is reasonable to consider applicant as a division of Park to arrive at an annual rate increase cap to mitigate the impact of the increase on applicant's customers.

3. If there is sufficient customer support for accelerating the present pace of applicant's improvement and replacement program discussed in Finding 6, applicant may seek further rate relief by advice letter.

4. Because of the immediate need for rate relief the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Uehling Water Company shall:

   a. File the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 4 days after filing.

   b. File the system replacement and improvement plan and scheduling for construction, along with the comments of its report in conformity with Finding 6 within 180 days after the effective date of this order. Applicant shall file annual progress reports and contemplated plan changes with the staff by March 31 of each year.

   c. In the absence of satisfactory compliance the rate of return authorized herein shall be reduced from 13.4% to 0.0%. This reduction shall be reflected in the rates authorized in Ordering Paragraph 2.

2. On or after August 15, 1985 applicant is authorized to file an advice letter, with appropriate work papers, requesting the initial step rate increase attached to this order in Appendix A or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the 12 months ended June 30, 1985, exceeds the 13.40% rate of return found reasonable in this decision. Such filing shall comply with General Order 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date

of the revised schedule shall be no earlier than October 1, 1985, or 30 days after the filing of the initial step rates, whichever is later.

3. On or after August 15, 1986 applicant shall file an advice letter, with appropriate work papers, requesting the second step rate decrease attached to this order in Appendix A or to file a lesser decrease which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the 12 months ended June 30, 1986, exceeds the 13.40% rate of return found reasonable in this decision. Such filing shall comply with General Order 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the decrease. The effective date of the revised schedule shall be no later than October 1, 1986, or 30 days after the filing of the second step rates, whichever is later.