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ORIGINAL

Decision No. 89111 JUL 25 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
CALIFORNIA WATER SERVICE COMPANY, )	Application No. 57331
a corporation, for an order author- )	(Filed May 23, 1977; amended
izing it to increase rates charged )	June 1, 1977 and August 31, 1977)
for water service in the San Mateo )	
District. )	

McCutchen, Doyle, Brown & Enersen, by  
Crawford Greene, Attorney at Law, for  
applicant.

Jasper Williams and Elmer Sjostrom,  
Attorneys at Law, and Ernst G. Knolle,  
Kenneth Chew, Benny Y. B. Tan, and  
A. V. Garde, for the Commission staff.

INTERIM OPINION

Applicant California Water Service Company seeks authority to increase rates for water service in its San Mateo District. The proposed annual step rates through the year 1980 would increase annual revenues by a total of \$907,300 or 27 percent. Applicant also requests a preliminary order granting partial rate relief which would increase annual revenues by \$369,700, or 10 percent, pending final disposition of this proceeding.

Public hearing was held in San Mateo and San Francisco on October 31, 1977. Copies of the original application and amendments had been served; notice of filing of the application published and mailed to customers; and notice of hearing published, mailed to customers, and posted, in accordance with this Commission's Rules of Practice and Procedure. The interim rate relief phase of the application was submitted on October 31, 1977, subject to receipt of applicant's

brief by November 8, 1977 and receipt of reply briefs within 10 additional days. Applicant's brief was filed November 7, 1977. A reply brief in opposition to the interim rate relief was filed by the Commission staff recommending that the interim relief be deferred until completion of the staff studies in early April 1978.

Following notice to all appearances, adjourned hearings were held, on a consolidated record with pending applications involving four other of applicant's districts, before Administrative Law Judge Gilman in San Francisco on April 10, 11, and 12 and in Stockton on April 13 and 14, 1978. This application was submitted for final decision on April 14, 1978, subject to receipt of concurrent opening briefs by May 4, 1978 and reply briefs by May 14, 1978. An opening brief was filed by applicant and a reply brief by the staff.

In support of the request for rate relief in this district, applicant presented testimony of its vice president in charge of regulatory matters. Testimony applicable to overall company operations has been presented by witnesses for applicant and the Commission's staff in pending Application No. 57328, the Stockton District rate proceeding. That evidence was incorporated by reference in the San Mateo District proceeding.

The Commission presentation for this district was made through three engineers.

Statements in opposition to the rate increases were presented by four customers.

#### Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its San Mateo District includes the incorporated city of San Mateo, together with contiguous territory in San Mateo County. The terrain slopes, with elevations ranging from near sea level to about 630 feet above sea level. The population within the area served is estimated at 95,400.

All of the water for the San Mateo District is obtained from the San Francisco Water Department (SFWD) and is delivered through

five connections to SFWD transmission mains. Thirty-two electrically powered booster pumps lift the water to serve the higher areas. Pressure switches, float switches, and telemeter systems are used as the primary control for the booster pumps. Emergency connections are provided at each booster station to permit use of a portable gasoline-powered booster pump stored in the district.

The transmission and distribution system includes about 244 miles of mains, ranging in size up to 24 inches, and approximately 14.5 million gallons of storage capacity. There are about 23,500 metered services, 140 private fire protection services, and 1,800 public fire hydrants.

#### Service

There have been only four informal complaints to the Commission from this district during the period from January 1976 through August 1977. Utility records indicate that customer complaints received at applicant's district office were quickly resolved. At the hearing, one customer complained of low pressure and another complained of inadequate flow. Applicant investigated the two situations and reported to the customers and the Commission staff. As reported, it appears that both customers were satisfied by the company's explanations and did not require any further affirmative action by applicant.

#### Rates

Applicant's present tariffs for this district consist primarily of schedules for general metered service and public fire hydrant service.

Applicant proposes to increase its rates for general metered service.

The following Table 1 presents a comparison of applicant's present and proposed general metered service rates and those authorized herein:

## COMPARISON OF MONTHLY RATES

	Present* Rates	Proposed Rates†			Authorized Rates		
		1978	1979	1980	1978	1979	1980
<b>Service Charge:</b>							
For 5/8 x 3/4-inch meter .....	\$ 2.27	\$ 3.20	\$ 3.34	\$ 3.48	\$ 2.30	\$ 2.37	\$ 2.43
For 3/4-inch meter .....	2.53	4.70	4.90	5.10	2.90	3.00	3.10
For 1-inch meter .....	3.44	6.40	6.70	7.10	3.90	4.00	4.10
For 1-1/2-inch meter .....	4.75	9.00	9.40	9.80	5.40	5.60	5.75
For 2-inch meter .....	6.07	11.50	12.00	12.60	7.00	7.20	7.40
For 3-inch meter .....	11.32	21.00	22.00	23.00	13.00	14.00	15.00
For 4-inch meter .....	15.67	29.00	30.00	32.00	18.00	19.00	20.00
For 6-inch meter .....	25.78	48.00	50.00	52.00	29.00	30.00	31.00
For 8-inch meter .....	38.42	72.00	75.00	78.00	44.00	45.00	46.00
For 10-inch meter .....	47.52	89.00	93.00	96.00	54.00	56.00	58.00
<b>Quantity Rates:</b>							
For the first 300 cu.ft., per 100 cu.ft. ....	0.478	0.496	0.508	0.515	0.490	0.510	0.520
For the next 200 cu.ft., per 100 cu.ft. ....	.478	.662	.678	.687	.677	.698	.716
For the next 29,500 cu.ft., per 100 cu.ft. ....	.598	.662	.678	.687	.677	.698	.716
For all over 30,000 cu.ft., per 100 cu.ft. ....	.555	.543	.559	.566	.626	.639	.667

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

\* Authorized by Decision No. 87709, dated August 16, 1977, in Application No. 57224.

† Set forth in applicant's Exhibit 7, which reflects the staff recommendations as to "Lifeline" rate guidelines.

A portion of applicant's latest studies which we have adopted shows that an average commercial customer (business and residential) will use about 19,043 cubic feet of water per year, or 15.87 Ccf (hundreds of cubic feet) per month. For a customer with a standard 5/8 x 3/4-inch meter, the charge for that quantity of water under present rates is \$11.16 per month. At applicant's proposed step rates for the years 1978, 1979, and 1980, the corresponding monthly charges would be, respectively, \$13.20, \$13.59, and \$13.87, or 18, 22, and 25 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charges would be, respectively, \$12.48, \$12.88, and \$13.20, or 12, 15, and 18 percent higher than under present rates.

A portion of the staff studies which we have adopted shows that an average industrial customer will use an average of about 166,000 cubic feet of water per year during 1978-1980, or 138 Ccf per month. For a typical industrial customer with a 4-inch meter, the charge for that quantity of water under present rates is \$97.59 per month. At applicant's proposed rates for the years 1978, 1979, and 1980, the corresponding monthly charges would be, respectively, \$119.86, \$123.05, and \$126.29, or 23, 26, and 29 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charges would be, respectively, \$110.87, \$114.76 and \$118.22, or 14, 18, and 21 percent higher than under present rates.

#### Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Tables II-A and B, based upon Exhibit 5, but expanded to show a more detailed breakdown of the various items of revenues and expenses, are the estimated results of operation for the test years 1978 and 1979 under present rates, under those proposed by applicant, and under the rates authorized herein.

Summary of Earnings - Test Year 1978

(Dollars in Thousands)

<u>Item</u>	<u>Applicant</u>		<u>Staff</u>		<u>Adopted Rates</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
<u>Operating Revenues</u>					
Metered	\$3,328.8	\$4,016.5	\$3,537.5	\$4,260.6	\$3,829.6
Fire Protection & Misc.	50.7	50.7	50.6	50.6	50.6
Total Operating Revenues	3,379.5	4,067.2	3,588.1	4,311.2	3,880.2
<u>Operating Expenses</u>					
<u>O. &amp; M., A. &amp; G. &amp; Misc.</u>					
Purchased Water	1,421.7	1,421.7	1,352.0	1,352.0	1,296.5
Purchased Power	81.6	81.6	94.5	94.5	90.7
Payroll	312.4	312.4	322.1	322.1	322.1
Other O. & M. Exp.	192.6	192.6	191.0	192.2	191.5
Other A. & G. & Misc.	24.2	24.2	26.1	26.1	26.1
Total O. & M., A. & G. & Misc. Expenses	2,032.5	2,032.5	1,985.7	1,986.9	1,926.9
<u>Taxes Other Than Income</u>					
Ad Valorem	211.1	211.1	187.7	187.7	187.7
Payroll	20.8	20.8	21.3	21.3	21.3
Other	20.0	20.0	20.0	20.0	20.0
Total Taxes Other Than Income	251.9	251.9	229.0	229.0	229.0
Depreciation	245.2	245.2	249.9	249.9	249.9
<u>G.O. Prorated Expenses</u>					
Payroll & Benefits	178.4	178.4	177.3	177.3	177.3
Payroll Taxes	6.4	6.4	7.6	7.6	7.6
Other Prorated Exp.	71.2	71.2	84.5	84.5	84.5
Total G.O. Prorated Expenses	256.0	256.0	269.4	269.4	269.4
<u>Income Taxes</u>					
Incl. Taxes Before I.T.C.	6.1	368.3	148.9	529.3	333.8
Investment Tax Credit	(63.6)	(63.6)	(56.9)	(56.9)	(56.9)
Total Income Taxes	(57.5)	304.7	92.0	472.4	276.9
Total Operating Expenses	2,728.1	3,090.3	2,826.0	3,207.6	2,952.1
Net Operating Revenues	651.4	976.9	762.1	1,103.6	928.1
Rate Base	9,407.6	9,407.6	9,326.9	9,326.9	9,326.9
Rate of Return	6.92%	10.38%	8.17%	11.83%	9.95%
Average Services	23,560		23,692		23,692
Sales - KCcf	4,624.5		4,969.7		4,766.7

(Red Figure)

Summary of Earnings - Test Year 1979

(Dollars in Thousands)

Item	Applicant		Staff		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues</u>					
Metered	\$3,339.7	\$4,143.7	\$3,555.0	\$4,373.0	\$3,968.9
Fire Protection & Misc.	51.6	51.6	51.5	51.5	51.5
Total Operating Revenues	3,391.3	4,195.3	3,606.5	4,424.5	4,020.4
<u>Operating Expenses</u>					
<u>O. &amp; M., A. &amp; G. &amp; Misc.</u>					
Purchased Water	1,425.5	1,425.5	1,357.9	1,357.9	1,302.1
Purchased Power	81.8	81.8	94.9	94.9	91.1
Payroll	330.0	330.0	343.7	343.7	343.7
Other O. & M. Exp.	203.1	203.1	198.7	200.0	199.4
Other A. & G. & Misc.	24.4	24.4	26.7	26.7	26.7
Total O. & M., A. & G. & Misc. Expenses	2,064.8	2,064.8	2,021.9	2,023.2	1,963.0
<u>Taxes Other Than Income</u>					
Ad Valorem	217.7	217.7	195.6	195.6	195.6
Payroll	22.0	22.0	23.4	23.4	23.4
Other	20.0	20.0	20.0	20.0	20.0
Total Taxes Other Than Income	259.7	259.7	239.0	239.0	239.0
Depreciation	253.7	253.7	260.4	260.4	260.4
<u>G.O. Prorated Expenses</u>					
Payroll & Benefits	189.6	189.6	189.5	189.5	189.5
Payroll Taxes	6.8	6.8	8.8	8.8	8.8
Other Prorated Exp.	73.5	73.5	91.5	91.5	91.5
Total G.O. Prorated Expenses	269.9	269.9	289.8	289.8	289.8
<u>Income Taxes</u>					
Incl. Taxes Before I.T.C.	(31.9)	391.6	106.9	537.1	355.8
Investment Tax Credit	(58.2)	(58.2)	(51.5)	(51.5)	(51.5)
Total Income Taxes	(90.1)	333.4	55.4	485.6	304.3
Total Operating Expenses	2,758.0	3,181.5	2,866.5	3,298.0	3,056.5
Net Operating Revenues	633.3	1,013.8	740.0	1,126.5	963.9
Rate Base	9,761.1	9,761.1	9,686.1	9,686.1	9,686.1
Rate of Return	6.49%	10.39%	7.64%	11.63%	9.95%
<u>Average Services</u>					
Average Services	23,672		23,850		23,850
Sales - KCcf	4,637.1		4,991.6		4,787.4

(Red Figure)

Applicant's original estimates were completed in May 1977, with amendment made in August 1977. Between then and the completion date of the staff's exhibit, several changes took place in rates for purchased water and power, ad valorem taxes, and other expenses, some of which have been reflected in offset increases in applicant's rates. Also, additional data became available as to actual numbers of customers, year-end 1977 plant balances, and other recorded data.

Instead of amending the estimated summaries of earnings each time a change took place and each time later data became available, applicant kept the Commission staff advised of changes and new data so they could be reflected in the staff's estimates. When the staff exhibits were distributed, applicant checked the staff's independent estimates for reasonableness and adopted those portions on which there were no issues. For the purpose of this proceeding, all of the staff's estimates except those related to estimated average consumption per commercial customer were accepted by applicant, leaving that one issue to be resolved with respect to summary of earnings.

The more detailed breakdown in Tables II-A and B under adopted results of operation will provide a basis for review of future advice letter requests for rate increases or decreases to offset changes not reflected in either (1) the test years 1978 and 1979 or (2) the trend in rate of return into 1980 adopted as the basis for the rates authorized herein. The purchased water rates are those which became effective March 1, 1978 and result in a composite charge of \$0.2520 per Ccf. The purchased power rates are those which became effective April 1, 1978 and result in a composite charge of 5.538 cents per kwh. The composite equivalent effective ad valorem tax rate of 1.809 percent of the dollars of beginning-of-year net plant plus materials and supplies is that applicable



to the fiscal year 1977-1978. The state and federal income tax rates used are the current 9 percent and 48 percent rates, respectively. The investment tax credit is the current 10 percent applicable to operations.

Operating Revenues

Both applicant and the staff used the "Modified Bean" method, as described in the staff manual, Standard Practice U-25, to estimate commercial metered sales. Neither staff nor applicant used 1977 recorded data in the regression analysis due to the abnormal conservation effect experienced during that drought year. The methods used by both applicant and the staff were consistent with guidelines established by the staff and the California Water Association's Consumption-Revenue Estimation Committee. Estimated normalized consumption per commercial customer before adjustment for conservation for both 1978 and 1979 test years is 218.2 Ccf in applicant's studies and 216.4 in the staff's studies. This difference of less than one percent is due to slightly different projections of the indicated trend in consumption when data for 1977 was determined to be unusable. The drought effects had not been anticipated in the standardized guidelines and specific procedures relating thereto are not specified.

Applicant and staff agree that there will be some residual conservation even though the drought is over. To estimate this effect, applicant used a judgmental percentage of the recent recorded decline in customer usage. Applicant estimated the long-term residual conservation effect to be 15 percent below the pre-drought "normal" for all classes of customers. The staff estimated the residual conservation effect to be approximately 8 percent below the pre-drought "normal" for commercial and 9 percent for public authority customers.

In August 1977, to arrive at its residual conservation effect, applicant estimated 1977 sales to be .38 percent below normalized and used approximately four-tenths of that percentage difference as its estimate of residual conservation effect. However, the staff, in estimating its residual conservation effect, had later data available which showed recorded 1977 sales from April through December to be only about 32 percent below normalized. The staff then used approximately one-fourth of the percentage difference as the residual conservation effect.

Applicant concurs in the use of the later data but disagrees with the proportion of 1977 conservation that the staff used as residual conservation into the future for commercial customers. Applicant's witness pointed out that San Mateo had a mandatory 25 percent reduction in use as part of the rationing program on the San Francisco Peninsula. As a result, he concluded that the customers effected permanent conservation measures. He cited, as an example, the extraordinary 94 percent of San Mateo District customers who picked up conservation kits made available by applicant. He argued that those customers are not going to remove the water-conserving devices from shower and sanitary facilities just because the drought is over.

The witness also was of the opinion that, aside from the effect of conservation kits on indoor consumption, life-styles are likely to have been changed by the drought. Even in this post-drought year, he opined, it will not be fashionable to let water run down the gutter in the street while lawns are being watered. The continuing publicity, including applicant's own conservation information program, was also deemed to be a factor in discouraging waste of water. He also cited examples of Peninsula residents who have made relatively permanent changes to conserve water, such as replacing lawns with rock gardens.

The witness also pointed out that applicant's water supplier for the San Mateo District, the San Francisco Water Department, has set its rates on the basis of an expected 15 percent future conservation level from both within San Francisco and from its wholesale customers including the San Mateo District. It was further stated that applicant's San Mateo District consistently out-conserved San Francisco during the recent drought.

We also have taken notice of residual conservation amounts recommended by the staff and/or adopted by the Commission in other proceedings of late. In applicant's own Stockton District in Application No. 57328, both applicant and the staff have estimated a 10 percent residual conservation effect. In Decision No. 88719 issued April 18, 1978, in Southern California Water Company's Application No. 57269 in its San Gabriel Valley District, the Commission adopted the staff's recommended 6 percent conservation estimate for a district that had obtained only 15 percent conservation for the 12-month period ended October 1977.

Staff argues that we should adopt its conservation estimates. It believes that San Mateo residents were forced into drastic conservation measures which will not continue once the drought has ended. It believes that many of the conservation kits were not actually installed. The staff witness claimed that he "...cross-checked his judgement by the amount of conservation kits distributed, amount of kits that would actually be installed by the customers, and the amount of saving from each kit." Staff also notes that its estimates, developed by the same method, were accepted in Applications Nos. 57269, 57270, and 57271 (Decisions Nos. 88719, 88760, and 88761); these involved districts of Southern California Water Company. It also points out that applicant was willing to accept staff estimates based on the same methodology in other districts.

We have decided that either estimate could be subject to substantial variation. However, if applicant has overestimated, the procedure for limiting step rates will tend to prevent it from realizing excessive earnings except for a brief period. On the other hand, if we adopt the staff estimates, a substantial error could force applicant to either accept a significant revenue deficiency for an extended

period or to file a premature general rate increase for this district.

We will therefore adopt the applicant's estimate of a 12 percent residual conservation effect.

Conservation of Water and Power

Applicant presented, in a previous series of rate proceedings, a comprehensive review of its efforts to effect water conservation. Decision No. 87333 dated May 17, 1977 in Application No. 56134 involved applicant's East Los Angeles District, which was the initial district of the previous series. That decision included a discussion of this subject and the finding that applicant's conservation program was satisfactory.

In the current proceeding, applicant presented evidence that it is continuing actively to prevail upon its customers to avoid nonbeneficial consumption of water. Also, applicant has followed the recommendation of the Commission staff in Case No. 10114 (the pending Commission investigation into water conservation matters) that, in order to conserve power, a program of pump efficiency testing be established.

Rate of Return

In Decision No. 89110 dated JUL 25 1978 1978 in Application No. 57330, applicant's Salinas District rate proceeding, the Commission discussed at some length the basis for its findings that rates of return of .9.95 percent on rate base and 12.81 percent on common equity are reasonable for applicant's operations for the period from 1978 through 1980. The same discussion, including consideration of quality of service, applies to applicant's San Mateo District and need not be repeated in this decision.

Trend in Rate of Return

In some prior decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce,

on the average over that period, the rate of return found reasonable. In other decisions, it was deemed more appropriate to increase the rates in steps designed to maintain, in each of several future years, the rate of return found reasonable. In the current proceeding, applicant and the staff recommended that step rates be authorized. Estimates of operations for the years 1978 and 1979 provide the basis for the step rates applicable to those years. Estimated projection of the downward trend that would prevail at the 1979 level of rates provides the basis for the 1980 step rates required to maintain a level rate of return beyond 1979.

As shown on Tables II-A and B, at present rates, the staff's estimated rates of return are 8.17 percent for 1978 and 7.64 percent for 1979, a difference of 0.53 percent. The staff's analysis also shows that there is somewhat greater attrition at higher levels of fixed rates. Applicant's studies show, however, that the expected decline from 1977 to 1978 was lower than from 1978 to 1979. It appears reasonable to adopt applicant's recommendation, concurred in by the staff, that an attrition allowance of 0.51 percent over 1979 rates be adopted in establishing the 1980 step rates.

The staff recommends that applicant be required to file an advice letter with appropriate work papers at the end of 1978 and 1979 to justify the next year's step rate. To provide adequate review time, applicant will be expected to file its advice letters on or before December 1, each year, based upon data for the previous twelve months ending October 31.

Rate Spread

After the total revenue requirement is determined in a rate proceeding, there still remains the problem of an equitable distribution of that revenue requirement among the various components of the rate structure. Applicant's original proposed rates were based upon early "Lifeline" rate structures promulgated by the Commission, in which none of the increase is added to (1) the service charge for the smallest size (5/8 x 3/4-inch) of residential metered service and (2) the quantity rate for the first 500 cubic feet of consumption each month. In more recent rate increases granted to applicant,<sup>1/</sup> recognition has been given in lifeline rates to the fact that indefinite freezing of the aforementioned two components of the rate structure would place an unfair burden on larger users.

In this proceeding, the staff presented more detailed guidelines for rate design. Applicant concurred in the guidelines and utilized them in designing revised proposed rates which would produce the same revenues as the original proposed rates. The staff's guidelines set forth in Exhibit 6, which were also used in designing the rates authorized herein, are:

- "A. The staff suggests that the service charge for the 5/8 x 3/4-inch meter and the lifeline quantity block be increased only to the level necessary to obtain the 25% differential between lifeline and other system customers. The maximum increase for the lifeline block is 12.3% for the year 1978.
- "B. Service charge for the 5/8 x 3/4-inch meter be increased in the succeeding years 1979 and 1980 to retain the percentage of the charge for the 3/4-inch meter and others.

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<sup>1/</sup> Decision No. 87861 dated September 13, 1977 in Application No. 57190 involving applicant's San Francisco Peninsula districts, and Resolution No. W-2244 dated September 7, 1977, in response to applicant's Advice Letter 562, involving the Stockton District.

- "C. A two-block rate structure with a 300 cubic feet lifeline block be established instead of the four-block rate structure proposed by the applicant. The quantity rates for the two blocks be increased in the succeeding years, 1979 and 1980, to retain the 25% differential between the lifeline users and other system customers."

The rates adopted herein follow the above general guidelines. The adopted rates retain the third rate block at a level below the second block in order that an unreasonable financial burden will not be placed on large users such as industries and schools.

Other Staff Recommendations and Comments

Several additional recommendations and comments were included by the staff in its exhibits and testimony relating to operations of applicant as a whole and of the San Mateo District. They do not affect the rates to be authorized and therefore need not be the subject of findings, conclusions, and the order herein. They do, however, warrant the discussion which was included in the Salinas District decision hereinbefore mentioned. The topics covered are:

1. Utility plant acquisition adjustment.
2. Balancing accounts.
3. Allocating common plant in district reports to the Commission.
4. Accounting for revenue from leased water rights.
5. Ad valorem taxes used in calculating income taxes.
6. Amortization of abnormal conservation expenses.

The only topic requiring additional comment for the San Mateo District is the final item of the above list. In the other districts of the current series, applicant has no objection to including amortization of abnormal conservation expenses among other expenses to be offset in some future advice letter filing. In the San Mateo District, however, applicant proposes to file a separate request to offset the abnormal conservation expense, together with other items related to conservation, against penalty charges collected from excess use by some customers during the mandatory rationing program on the San Francisco Peninsula. If that plan is found to be inappropriate, applicant advises that it will attempt to recover the abnormal conservation expenses in a future advice letter filing. The staff did not object to this proposal.

Findings

1. Applicant's water quality, conservation program, and service are satisfactory.
2. Applicant is in need of additional revenues, but the rates requested would produce an excessive rate of return.
3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test years 1978 and 1979, and an annual fixed-rate decline of 0.51 percent in rate of return into 1980, reasonably indicate the probable results of applicant's operations for the near future.



4. A rate of return of 9.95 percent on applicant's rate base for 1978, 1979, and 1980 is reasonable. The related average rate of return for common equity over the three-year period is approximately 12.81 percent. This will require an increase of \$411,600, or 11.9 percent, in annual revenues for 1978; a further increase of \$140,200, or 3.6 percent, for 1979 (from 1978); and a final increase of \$104,500, or 2.6 percent, for 1980.

5. The staff's recommendations on rate spread are reasonable and should be adopted.

6. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

7. The offset increases authorized in Appendix B and Appendix C should be appropriately modified in the event the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended October 31, 1978 and/or the twelve months ended October 31, 1979 exceeds 9.95 percent.

8. Inasmuch as this matter is now submitted for final decision, there is no need for the preliminary decision.

9. At this time the effect of Article XIII-A (known as the Jarvis-Gann initiative) on applicant's ad valorem tax liability is not known. The rates granted herein should be adjusted by a proper amount when the ad valorem tax savings under Article XIII-A are known.

The Commission concludes that the application should be granted to the extent provided by the following order on an interim basis until such time that the effect of Article XIII-A on applicant's ad valorem tax liability is known.

INTERIM ORDER

IT IS ORDERED that:

1. After the effective date of this order, applicant California Water Service Company is authorized to file for its San Mateo District the initial revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. On or before December 1, 1978, applicant is authorized to file, along with appropriate work papers, the step rates attached to this order as Appendix B or to file a lesser increase which includes a uniform cents-per-hundred-cubic-feet of water adjustment from Appendix B in the event that the San Mateo District rate of return on rate base, adjusted to reflect the rates then in effect on (1) pro forma basis using recorded sales and (2) pro forma basis with normal ratemaking adjustments for the twelve months ended October 31, 1978, exceeds 9.95 percent. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1979. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or before December 1, 1979, applicant is authorized to file, along with appropriate work papers, the step rates attached to this order as Appendix C or to file a lesser increase which includes a uniform cents-per-hundred-cubic-feet of water adjustment from Appendix C in the event that the San Mateo District rate of return on rate base, adjusted to reflect the rates then in effect on (1) pro forma basis using recorded sales and (2) pro forma basis with normal ratemaking adjustments for the twelve months ended October 31, 1979, exceeds 9.95 percent. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1980. The revised schedule shall apply only to service rendered on and after the effective date thereof.

4. Applicant's request for a preliminary decision is denied. Applicant shall, by August 1, 1978, file an advice letter reducing the rates set forth in Appendix A to account for the ad valorem tax saving it estimates will result from the adoption of California Constitution Article XIII-A. It shall, at the same time, file in this proceeding and serve an explanation of its estimate and proposed modifications in Appendices B and C.

Because of the elapsed time since this application was filed, the effective date of this order is the date hereof.

Dated at San Francisco, California, this 25<sup>th</sup> day of July, 1978.

*I concur in part  
William Sproule*

*Robert Bateman*  
President

*I concur in part  
Vernon L. Sturgeon*

*Robert D. Hooley*  
*Walter L. Deibel*  
Commissioners

APPENDIX A

Schedule No. SM-1

San Mateo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Mateo and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>		
Service Charge:			
For 5/8 x 3/4-inch meter .....	\$ 2.30	(I)	
For 3/4-inch meter .....	2.90		
For 1-inch meter .....	3.90		
For 1 1/2-inch meter .....	5.40		
For 2-inch meter .....	7.00		
For 3-inch meter .....	13.00		
For 4-inch meter .....	18.00		
For 6-inch meter .....	29.00		
For 8-inch meter .....	44.00		
For 10-inch meter .....	54.00		(I)
Quantity Rates:			
For the first 300 cu.ft., per 100 cu.ft. ....	.490	(I)	
For the next 29,700 cu.ft., per 100 cu.ft. ....	.677	(I) (T)	
For all over 30,000 cu.ft., per 100 cu.ft. ....	.626	(I)	

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

APPENDIX B

Schedule No. SM-1

San Mateo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Mateo and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.37	(I)
For 3/4-inch meter .....	3.00	
For 1-inch meter .....	4.00	
For 1 1/4-inch meter .....	5.60	
For 2-inch meter .....	7.20	
For 3-inch meter .....	14.00	
For 4-inch meter .....	19.00	
For 6-inch meter .....	30.00	
For 8-inch meter .....	45.00	
For 10-inch meter .....	56.00	(I)

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft. ....	.510	(I)
For the next 29,700 cu.ft., per 100 cu.ft. ....	.698	
For all over 30,000 cu.ft., per 100 cu.ft. ....	.639	(I)

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

APPENDIX C

Schedule No. SM-1

San Mateo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Mateo and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.43	(1)
For 3/4-inch meter .....	3.10	
For 1-inch meter .....	4.10	
For 1 1/4-inch meter .....	5.75	
For 2-inch meter .....	7.40	
For 3-inch meter .....	15.00	
For 4-inch meter .....	20.00	
For 6-inch meter .....	31.00	
For 8-inch meter .....	46.00	
For 10-inch meter .....	58.00	(1)

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft. ....	-520	(1)
For the next 29,700 cu.ft., per 100 cu.ft. ....	-716	
For all over 30,000 cu.ft., per 100 cu.ft. ....	-667	(1)

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