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ORIGINAL

Decision No. 89528 OCT 17 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY, a corporation, for an order authorizing it to increase rates charged for water service in the Stockton district.	Application No. 57328 (Filed May 23, 1977, amended June 1, 1977 and August 31, 1977)

McCutchen, Doyle, Brown & Enersen, by Crawford Greene, Attorney at Law, for applicant.
Neumiller & Beardslee, by Thomas J. Shephard and Robert C. Morrison, Attorneys at Law, for Stockton-East Water District; Perry H. Taft, Attorney at Law, for City of Stockton; and Michael N. Garrigan, Attorney at Law, for County of San Joaquin; protestants.
Jasper Williams and Elmer Sjostrom, Attorneys at Law, and Ernst G. Knolle, Kenneth Chew, Arthur Mangold, and A. V. Garde, for the Commission staff.

O P I N I O N

Applicant California Water Service Company sought authority to increase rates for water service in its Stockton District. The proposed annual step rates through the year 1980 would increase annual revenues by a total of $2,172,000 or 34 percent. Applicant also requested a preliminary order granting partial rate relief which would have increased annual revenues by $1,215,000, or 18 percent, pending final disposition of this proceeding.

Public hearing was held in Stockton on October 3 and 4 and in San Francisco on October 31 and November 1, 2, and 3, 1977. Copies of the original application and amendments were 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 November 3, 1977, subject to receipt of applicant's brief by November 8, 1977 and receipt of reply briefs within ten additional days. Applicant's brief was filed November 7, 1977. Reply briefs in opposition to the interim rate relief were filed by the Commission staff, Stockton-East Water District (Stockton-East), and City of Stockton (City) 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 14, 1978 and reply briefs by June 3, 1978. Opening briefs were filed by applicant and by the staff. Reply briefs were filed by applicant, staff, and City. Two individuals who did not appear offered briefs which were filed.

In support of the requests for rate relief, applicant presented testimony of its president, its vice president in charge of regulatory matters, its vice president and chief engineer, its vice president and treasurer, its assistant chief engineer in charge of operations, its superintendent of construction and field operations, and its Stockton District manager. Protestant Stockton-East presented testimony of one of its directors, its general manager, and two consulting engineers. City presented testimony of a consulting engineer. The Commission staff presentation was made through three accountants and four engineers.

In addition to the sworn testimony, at the initial hearing in Stockton, statements in opposition to the rate increases were made by representatives of the county of San Joaquin (County) and several of its agencies, City, the Stockton Unified School District, Stockton-East, and the Stockton Chamber of Commerce (Chamber). In addition, objections to the rate increases were presented by 21 individual customers, one of whom presented petitions signed by over 3,000 individuals. A representative of the League of Women Voters also made a statement.

At the adjourned hearing in Stockton, six months later, County, Stockton-East, Chamber, and five individual customers supplemented their original statements regarding the proposed rate increases. Others making statements at the adjourned hearing were two representatives of cannery workers, two representatives of senior citizens groups, five representatives of social service or low-income groups, four representatives of community action groups, and five individual customers who had not appeared at the initial hearing.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its Stockton District includes most of the incorporated city of Stockton, together with contiguous territory in San Joaquin County. The terrain is flat, with elevations ranging from one foot to 30 feet above sea level. The population within the area served is estimated at 148,500.

Water for the Stockton District is obtained from two sources. What was previously the primary supply is 69 company-owned wells located throughout the service area. All well pumps are electrically powered and four of them have a secondary source of power. A remote control system at a central location is used as the primary control for the wells and related booster pumps. A full-time operator has remote control of the pumps, and individual stations also have their

own pressure controls. Supplementing the well supply, since March of 1977, is a treated surface supply from Stockton-East. Some of the implications of this additional source of supply were discussed in Decision No. 85138 dated November 18, 1975, in Application No. 55686. The current annual delivery rate from this source for applicant's Stockton District is 19,600 acre feet, including portions of quotas not being utilized by City and County. Due to the drought, only a small portion of the normal deliveries was utilized during 1977, permitting the district to supply additional water to agricultural users.

The transmission and distribution system includes about 450 miles of mains, ranging in size up to 42 inches, and approximately 7.3 million gallons of storage capacity. There are about 37,000 metered services, 300 private fire protection services, and 2,400 public fire hydrants.

Service

There have been only seven 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. The only customer statements presented at the hearings which might be construed as service complaints were by three customers at the initial hearing who questioned the accuracy of applicant's meter reading and billing and one customer who had the impression that requested technical information had been intentionally withheld from him by applicant. It appears that each of these problems has been resolved without Commission action.

Rates

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

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

TABLE I

COMPARISON OF MONTHLY RATES

	Present* Rates	Proposed Rates# 1978	Proposed Rates# 1979	Proposed Rates# 1980	Authorized Rates 1978	Authorized Rates 1979	Authorized Rates 1980
Service Charge:							
For 5/8 x 3/4-inch meter	$ 4.99	$ 6.17	$ 6.34	$ 6.55	$ 5.50	$ 5.61	$ 5.69
For 3/4-inch meter	6.35	9.05	9.30	9.60	8.00	8.20	8.30
For 1-inch meter	6.63	12.30	12.70	13.10	10.80	11.00	11.20
For 1-1/2-inch meter	12.15	17.30	17.80	18.30	15.00	15.00	16.00
For 2-inch meter	15.66	22.20	22.80	23.60	20.00	20.00	21.00
For 3-inch meter	28.46	41.00	42.00	44.00	36.00	37.00	38.00
For 4-inch meter	39.86	56.00	57.00	59.00	50.00	51.00	52.00
For 6-inch meter	66.42	93.00	96.00	99.00	83.00	85.00	86.00
For 8-inch meter	96.80	138.00	142.00	147.00	121.00	123.00	125.00
For 10-inch meter	119.57	171.00	176.00	182.00	149.00	152.00	154.00
Quantity Rates:							
For the first 300 cu.ft., per 100 cu.ft.	0.297	0.332	0.341	0.350	0.320	0.326	0.330
For the next 200 cu.ft., per 100 cu.ft.	.297	.453	.458	.468	.441	.449	.455
For the next 29,500 cu.ft., per 100 cu.ft.	.348	.453	.458	.468	.441	.449	.455
For all over 30,000 cu.ft., per 100 cu.ft.	.278	.325	.338	.350	.310	.311	.312

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 Resolution No. W-2120-A, dated May 3, 1977, in response to applicant's Advice Letter No. 540. These rates do not take into consideration the rate reductions due to the ad valorem tax reductions of Proposition No. 13. The rate reduction as authorized by Decision No. 89194, effective August 27, 1978, in Advice Letter No. 630, amounts to approximately $0.025 per 100 cu.ft. for all water used over 500 cu.ft.

\# Set forth in applicant's Exhibit 44, which reflects the staff recommendations as to "Lifeline" rate guidelines.

Applicant's studies indicated that an average commercial customer (business and residential) will use about 23,520 cubic feet of water per year, or 20 Ccf (humdreds 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[1/] is $11.70 per month. At applicant's proposed step rates for the years 1978, 1979, and 1980, the corresponding monthly charges would be, respectively, $14.87, $15.15, and $15.56, or 27, 29, and 33 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charges would be, respectively, $13.96, $14.22, and $14.42, or 19, 22, and 23 percent higher than under present rates.

Staff studies, which we herein adopt, show that an average industrial customer will use about 1,775,000 cubic feet of water per year, or 1,479 Ccf per month. For a typical industrial customer with a 4-inch meter, the charge for that quantity of water under present rates[1/] is $471.77 per month. At applicant's proposed rates for the years 1978, 1979, and 1980, the corresponding monthly charges would be, respectively, $574.71, $592.55, and $611.70, or 22, 26, and 30 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charges would be, respectively, $547.43, $552.00 and $555.98, or 16, 17, and 18 percent higher than under present rates.[1/]

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table II, based upon Exhibit 35, 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. The rates for 1980 were developed by extrapolating the estimated .29 percent attrition in rate of return to 1980.

1/ Present rates do not reflect the ad valorem tax reductions due to Proposition 13.

TABLE II
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Summary of Earnings - Test Year 1978

(Dollars in Thousands)

Item	Applicant		Staff		Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenues					
Metered	$ 6,299.6	$ 8,048.0	$ 6,338.6	$ 8,082.3	$ 7,471.5
Fire Protection & Misc.	80.4	80.4	80.4	80.4	80.4
Total Operating Revenues	6,380.0	8,128.4	6,419.0	8,162.7	7,551.9
Operating Expenses					
O&M, A&G, & Misc.					
Purchased Water	2,665.5	2,665.5	2,642.1	2,642.1	2,642.1
Pump Taxes	21.2	21.2	14.0	14.0	12.8
Purchased Power	243.4	243.4	176.2	176.2	160.1
Payroll	632.5	632.5	671.4	671.4	671.4
Other O&M Expenses	386.0	386.0	410.8	410.8	342.3
Other A&G & Misc.	50.7	50.7	58.0	58.0	58.0
Total O&M, A&G, & Misc. Expenses	3,999.3	3,999.3	3,972.5	3,972.5	3,886.7
Taxes Other Than Income					
Ad Valorem	497.8	497.8	491.2	491.2	274.6 1/
Payroll	42.2	42.2	43.2	43.2	43.2
Other	30.3	38.6	30.5	38.8	38.0
Total Taxes Other Than Income	570.3	578.6	564.9	573.2	355.8
Depreciation	494.0	494.0	481.2	481.2	496.7
G.O. Prorated Expenses					
Payroll & Benefits	319.3	319.3	329.5	329.5	329.5
Payroll Taxes	11.5	11.5	14.1	14.1	14.1
Other Prorated Expenses	127.4	127.4	157.1	157.1	157.1
Total G.O. Prorated Expenses	458.2	458.2	500.7	500.7	500.7
Income Taxes					
Inc. Taxes Before I.T.C.	(57.3)	859.4	13.0	927.2	727.4
Investment Tax Credit	(98.3)	(98.3)	(88.4)	(88.4)	(88.4)
Total Income Taxes	(155.6)	761.1	(75.4)	838.8	639.0
Total Operating Expenses	5,366.2	6,291.2	5,443.9	6,366.4	5,880.2
Net Operating Revenues	1,013.8	1,837.2	975.1	1,796.3	1,673.0
Rate Base	17,692.2	17,692.2	16,831.4	16,831.4	16,813.6
Rate of Return	5.73%	10.38%	5.79%	10.67%	9.95%
Average Services	36,986		36,989		36,989.0
Sales - Mcf	11,564.1		11,644.2		11,396.9

(Red Figure)

1/ Includes Proposition 13 reductions.

TABLE II
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Summary of Earnings - Test Year 1979

(Dollars in Thousands)

Item	Applicant Present Rates	Applicant Proposed Rates	Staff Present Rates	Staff Proposed Rates	Adopted Rates
Operating Revenues					
Metered	$ 6,320.2	$ 8,257.2	$ 6,372.5	$ 8,311.4	$ 7,620.6
Fire Protection & Misc.	81.2	81.2	81.2	81.2	81.2
Total Operating Revenues	6,401.4	8,338.4	6,453.7	8,392.6	7,701.8
Operating Expenses					
O&M, A&G, & Misc.					
Purchased Water	2,665.5	2,665.5	2,634.2	2,634.2	2,634.2
Pump Taxes	21.4	21.4	10.2	10.2	8.8
Purchased Power	245.3	245.3	128.5	128.5	110.0
Payroll	665.1	665.1	718.5	718.5	718.5
Other O&M Expenses	418.0	418.0	429.4	429.4	360.4
Other A&G & Misc.	52.4	52.4	61.3	61.3	61.3
Total O&M, A&G, & Misc. Expenses	4,067.7	4,067.7	3,982.1	3,982.1	3,893.2
Taxes Other Than Income					
Ad Valorem	520.7	520.7	498.7	498.7	283.0 1/
Payroll	44.4	44.4	46.8	46.8	46.8
Other	30.4	39.6	30.7	39.9	39.0
Total Taxes Other Than Income	595.5	604.7	576.2	585.4	368.8
Depreciation	513.5	513.5	501.1	501.1	517.7
G.O. Prorated Expenses					
Payroll & Benefits	339.4	339.4	352.2	352.2	352.2
Payroll Taxes	12.1	12.1	16.3	16.3	16.3
Other Prorated Expenses	131.5	131.5	170.1	170.1	170.1
Total G.O. Prorated Expenses	483.0	483.0	538.6	538.6	538.6
Income Taxes					
Inc. Taxes Before I.T.C.	(129.3)	886.2	(7.4)	1,009.2	771.5
Investment Tax Credit	(105.4)	(105.4)	(91.4)	(91.4)	(91.4)
Total Income Taxes	(234.7)	780.8	(98.8)	917.8	680.1
Total Operating Expenses	5,425.0	6,449.7	5,499.2	6,525.0	5,998.4
Net Operating Revenues	976.4	1,888.7	954.5	1,867.6	1,703.4
Rate Base	18,192.0	18,192.0	17,071.1	17,071.1	17,119.2
Rate of Return	5.37%	10.38%	5.59%	10.94%	9.95%
Average Services	37,117		37,119		37,119
Sales - KCcf	11,597.6		11,721.5		11,436.5

(Red Figure)

1/ Includes Proposition 13 reductions.

Applicant's original estimates were completed in May 1977, with some slight modifications added in August 1977. Between then and the completion date of the staff's exhibit, several changes took place in rates for purchased water, purchased 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 and assumptions in the summaries of earnings were accepted by applicant, with the exception of those related to the following issues, which are hereinafter discussed in more detail:

1. Estimated average sales to commercial (residential and business) customers.
2. Estimated average utilization of the Stockton-East imported water.
3. Estimated company-financed replacements and improvements in 1978 and 1979.
4. Retirement of 33 wells.

The more detailed breakdown in Table II 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 rate for the test year 1979

is the annual charge of $2,634,200 levied by Stockton-East, which became effective April 1, 1978. The pump tax rate is the current $3.00 per acre foot levied by Stockton-East, applicable to 70 percent of applicant's groundwater extractions. The purchased power rates are those which became effective April 1, 1978 and result in a composite charge of 5.910 cents per kWh. 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. The local business license and franchise tax combined rate used is 0.475 percent of gross revenue. Property tax estimates include Proposition 13 reductions.

Operating Revenues

Applicant used the "Modified Bean" method, as described in the staff manual, Standard Practice U-25, to estimate commercial metered sales. Applicant did not use 1977 recorded data in the regression analysis due to the abnormal conservation effect experienced during that drought year. The methods used by applicant were consistent with guidelines established by the staff and the California Water Association's Consumption-Revenue Estimation Committee (Committee) and resulted in the use of annual data and a multiple linear regression analysis using (1) year and (2) average annual temperature as independent variables. Applicant's estimated normalized consumption per commercial customer is 261.3 Ccf before adjustment for conservation for both 1978 and 1979 test years.

The first trial run made by the staff witness confirmed that normalized consumption of 261.3 Ccf per customer-year would result from applying the Committee basic guidelines to data on commercial[2/] usage and weather. The staff witness rejected this end result, however, as not being "significant" and undertook numerous other trial runs

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2/ In this context a "commercial" customer includes both residential and business customers, but not industrial customers.

utilizing various deviations from the basic Committee method. The results adopted by him, before adjustment for conservation for 1978 and 1979, respectively, are 202.8 and 201.6 Ccf per residential customer, 822.2 and 842.6 Ccf per business customer, and a resultant composite 268.8 and 269.9 Ccf per commercial customer. The staff's estimates for use per residential customer were based upon monthly data and a multiple linear regression analysis using (1) year, (2) month of year, and (3) average monthly temperature as independent variables. The staff's estimates for use per business customer were based upon annual data and a simple linear regression analysis using time as the single independent variable.

A similar issue arose between applicant and the staff in the previous series of rate proceedings. In that series, both applicant and the staff used the basic Committee guidelines in estimating normal consumption for six out of seven districts involved. For the East Los Angeles District, however, the staff separated commercial use into residential and business use and proposed the use of a special nonstandard estimating technique.

The Commission rejected the staff estimate. Decision No. 87333 dated May 17, 1977 in Application No. 56134, stated:

> "In regard to the use of the 'Committee Method', the issue stems from different interpretations by applicant and staff witnesses as to the intent of the final step of the basic procedure...'Adopt results if they appear reasonable.'"

Decision No. 87333 included a lengthy discussion explaining why the Commission rejected the staff estimates and adopted applicant's estimates. Applicant again argues in its brief that the basic guidelines should be followed by applicant and staff unless clearly unreasonable results are obtained. Applicant contends that the various witnesses should not attempt to "re-invent the wheel" when there is already an acceptable, standard procedure available.

The staff witness's reasons for rejecting the result of the basic Committee procedure were based on statistics alone. He did not suggest the existence of an objectively verifiable distinction between Stockton and other communities which would produce an abnormal relationship between business and residential consumption. Hence, we cannot determine whether the statistical patterns he observed are the product of an actual local peculiarity or of the method itself.

Given the logic of the Committee method itself only the former would justify using a nonstandard procedure. In the latter circumstance, the only appropriate course for the staff would be a proposal to reconvene the Committee and modify the method, assuming that the problem is of significant magnitude.

The City's expert witness claimed that it was obvious to him that the Modified Bean method would produce "spurious" results. He did not, however, provide a sufficient basis to support this conclusion, or to indicate that his slightly higher sales estimates are more reliable. They are likewise rejected.

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 10 percent below the pre-drought "normal"

for all classes of customers. The staff also estimated the residual conservation effect to be at least 10 percent below the pre-drought "normal" for commercial and public authority customers. The City's witness did not dispute this adjustment.

For other than commercial and public authority customers, the staff utilized more recent data and concluded that the normal future use by industrial customers would be somewhat less than had been estimated earlier by applicant, but that the use by public authorities would exceed applicant's estimates. Applicant took no issue with those conclusions, and they are adopted herein.

Imported Water

Applicant and the staff presented significantly different estimates of the amount of imported water from Stockton-East that could be utilized in applicant's Stockton District in a normal year. Inasmuch as a large proportion of the payments made by applicant to Stockton-East are to cover fixed charges, the annual payments are not subject to much fluctuation as greater or lesser amounts of water are delivered to the Stockton District. The difference in estimated deliveries thus did not create an issue as to annual cost of imported water. However, any difference in assumed deliveries of imported water does affect the estimates of annual production costs of water from applicant's well supplies which make up the difference between total demand and imported water.

Under the terms of the long-term water supply contract entered into by applicant, Stockton-East, City, Lincoln Village Maintenance District and Colonial Heights Maintenance District, applicant is entitled to 18,500 acre-feet of water in a normal year. The public agencies are entitled to another 1,500 acre-feet, making a total of 20,000 acre-feet from Stockton-East. Applicant's original estimates were predicated upon the assumption that the public agencies would take their quota, but it later developed that another 1,100

acre-feet of the public agencies' share will be available to applicant, at least for the near future. Applicant's modified estimates in Exhibit 35 are therefore based upon 19,600 acre-feet of annual deliveries from Stockton-East.

In the staff's opinion, Stockton-East should be able to provide more than the quantities specified in the contract. The staff estimates that Stockton-East will deliver to applicant 22,000 acre-feet during 1978 and 24,000 acre-feet during 1979. The staff based those estimated deliveries upon its opinion that Stockton-East has the potential to deliver 27,000 acre-feet per year but that it will take a few years to coordinate the operations of applicant and Stockton-East to allow optimum use of the treatment plant. The staff's estimate of Stockton-East's delivery potential is based, at least in part, on a study which assumed a total production requirement of 34,000 acre-feet of water per year for the Stockton District, as indicated by the staff's introduction of Exhibit 8.

Applicant presented extensive testimony by its assistant chief engineer in charge of operations as to the actual physical obstacles to utilizing the quantities of imported water assumed by the staff. He claims that, because of seasonal fluctuations in demand, the distribution system will actually be able to use the Stockton-East maximum capacity for only four months of the year. Further, a diurnal high demand assertedly occurs even during months with low average use and requires applicant to run some of its wells to maintain the quality of water from the wells, reduce sanding, and avoid localized pressure drops. The witness also contended that it would be unrealistic to assume that Stockton-East's facilities will have 100 percent reliability. He argued that some allowance must be made for the inevitable shutdown of any mechanical equipment for maintenance and repairs.

We believe, however, that the applicant's projections are based on too pessimistic a view of the reliability of Stockton-East's system. We also have determined that the staff estimate includes a realistic allowance for peaking supply and local pressure maintenance.

Furthermore, even if there are significant breakdowns in the treatment plant it would appear that Stockton-East might be willing to assume responsibility for the additional pumping and purification costs which would result. (The District assumed responsibility for a substantial amount of such costs to ameliorate subnormal deliveries during the drought.) We will therefore adopt the staff's estimates of the amount of water which will be delivered by Stockton-East. Table II assumes that applicant will purchase 22,000 acre-feet in 1978 and 24,000 acre-feet in 1979 and 1980.3/

Plant Replacements and Improvements

Applicant's estimates of 1978 and 1979 operations reflect, among other things, the effect of plant replacements and improvements which applicant intends to install and which require expenditure of company funds. These capital additions include specific items which identify the location and design of the facilities. They also include an allowance for nonspecific items where, based upon experience, the need and amount of expenditure needed can be predicted but the exact location and design will be determined later, based upon leak history, street improvement programs, and other factors.

3/ In the event that there are drastic departures from our estimate, and no other financial relief is available we will consider an advice letter offset to amortize extraordinary pumping expenses.

The staff assigned to this proceeding devoted considerable effort to analyzing and evaluating the specified projects. We approve of this approach and find it especially appropriate in this proceeding; the added revenue requirement demonstrated in this proceeding is almost entirely due to a combination of rate base increases and increases in rate of return. If it had been possible to reduce past rate base growth it might have been possible to defer this increase for a year or longer.

The staff contended that the proposed 1978 test year installation of 3,520 feet of 12-inch main on Willow Street at a cost of $101,900 is not necessary or at least premature. It contended there was no evidence of flow or pressure inadequacy and consequently no immediate need for replacement of the existing mains.

The staff witness claimed that the fire flow provisions of General Order No. 103 are currently met. He also indicated that there were alternative methods to meet fire flow requirements; for example, taking fire water directly from the Stockton channel or upgrading the local distribution system as part of the company's small main replacement program.

Applicant countered that the Willow Street replacement is designed to bring imported water into an area which has no local supply. It contended that the area in question does not presently meet current fire flow standards and includes one of the few locations where pressures are not now maintained at or above the 40 psi minimum pressure now prescribed by Commission General Order No. 103.

The staff also challenged the installation of 2,100 feet of 16-inch main in Airport Way. It claimed that the new main would have about three times the capacity in existing 4-inch and 12-inch steel mains and that there has been no growth in that portion of the service area.

Applicant argued that the Airport Way replacement is part of an orderly program to replace existing aging undersized mains with a network of mains adequate to meet customers' needs, including fire flows required by General Order No. 103. In addition, it indicated that the 12-inch main was constructed with inferior steel which was the only material available during World War II and has a continuing history of leaks. Further, the 12-inch main was located in a parkway making it hazardous and inconvenient to repair.

The staff claimed that it would be possible to continue projects of this type by using funds now budgeted for nonspecific main replacements. Applicant noted that its system included roughly 600,000 feet of steel mains installed before 1960, and approximately 250,000 feet of 2-inch wrought iron mains installed at least 50 years ago. It argued that diversion of funds from its replacement program to install about 15,000 feet of substitute mains annually would be to the detriment of service to the public.

In regard to applicant's planned computer monitoring and control system, the staff did not question its value for the Stockton District but concluded that it was premature. Applicant's assistant chief engineer described the equipment involved and the functions it will perform. Applicant conceded that there would be no immediate measurable expense savings. However, applicant's witness contended that the installation would result in better reliability and quicker response to changes in demand, thus improving service to the public. When the system is fully operational, applicant expects that it will permit the optimum use of water, greater reliance on the most efficient wells and make sources of supply more interchangeable. He estimated that there would be a minimum lag of two years between initial installation and fully operational control. Applicant therefore argued that the initial

phase of this project should not be deferred since it would prefer to be able to use this tool during the first few years of receiving imported water. Its proposed results of operation for 1979 include funds for the initial phase of this control system.

We have excluded both specific main replacement projects. There is insufficient evidence to show that either will produce sufficient savings to offset the added costs of ownership of the new plant. While deferring these items will tend to create islands of less than ideal service in applicant's service area, we cannot find that the service in the affected areas is not now at least tolerable to consumers. We are especially concerned about deferring construction which would improve fire flow; however, the record falls far short of a demonstration that the improvements will in fact improve overall fire-fighting reliability.

We have not included an allowance for the computer center. As we understand the primary function of this plant would be to improve service, not to save costs. There is no indication in the record that changes in source of supply will degrade applicant's service below the levels we believe appropriate for Stockton. Therefore, applicant has not shown it to be a cost-effective project.

Applicant is justly proud of its reputation for rendering high quality service and for achieving an extremely low level of consumer complaints. In another community setting, system improvements such as these and the attendant costs of ownership might appear more appropriate. However, Stockton is clearly undergoing a severe economic dislocation. We would assume that one product of this dislocation is a deferral of desirable improvements in other types of public works. It does not seem appropriate to encourage the development of a sophisticated and highly reliable water system in a community which must postpone other important public projects.

Applicant suggested that the proper standard for evaluating future construction projects could be stated as follows:

> "...it [applicant] will be expected to continue to give careful attention to future construction budgets in Stockton in order to keep new plant additions or improvements at the minimum level consistent with applicant's usual standards of service." (Emphasis added.)

In our opinion, however, applicant should be expected to compromise its usual operating standards in order to minimize capital growth and hence the size and frequency of rate increases in the Stockton District. We recognize that this compromise will require some parts of the community to accept service levels which are tolerable rather than satisfactory or highly satisfactory. Nevertheless, comments by the public lead us to believe that there is a general willingness to accept a lower level of service, if rate increases can be minimized. Applicant will be expected to critically evaluate system improvements and postpone those which are not immediately necessary to maintain tolerable service and/or which will not produce immediate operating economies greater than the increase in capital costs which the construction would produce.

A permanent system for impartial review of applicant's annual construction budgets would serve the community's desire to reduce the level and frequency of future rate increases. Despite

constraints on the number of man-hours the Commission staff can assign to water rate questions, we believe it would be worthwhile to experiment with a means to institutionalize an impartial, ongoing budget review process. This proceeding is not appropriate for devising detailed methods to accomplish our goals. We will, however, indicate several tentative objectives. First, the process would be efficient--diverting a minimum amount of expert manpower from more traditional functions. Second, it will be experimental; the process will be terminated unless it proves to be more productive, in terms of savings to consumers than applying the same amount of effort directly to rate case presentations. Third, it should be based on a more intimate knowledge of the system and its operations than can normally be developed in the course of a single rate case. Fourth, it should not cross, or even approach, the boundary between management and regulation. Fifth, it should not cause extra delay or expense for the utility. Specifically, there should be no requirement for hearing or decision before plant items are constructed. Sixth, it should allow further consumer input to ensure that the community achieves the level of service and reliability and only that level which it is willing to pay for.

In the special circumstances which exist in Stockton, the new program may also serve another useful purpose. There is now no single institution to evaluate whether interface facilities such as the proposed computer control center should be owned and/or operated by the utility or Stockton East. The system we propose may be able to offer some insight into the operational and financial aspects of such questions.

There may even be a reason to consider at least financial alternatives when major noninterface capital projects are needed. For example, it might be more economical for Stockton East to finance a major main replacement and lease the plant to applicant than for applicant to finance the project itself. Any savings achieved by such a device would of course be flowed through to consumers. This sort of arrangement might also create some ad valorem tax savings to be flowed through.

We will invite participation by this and other interested communities, as well as the industry, in establishing and evaluating this project.

In regard to proposed improvements in Well No. 80-01, applicant points out that when its 1978 budget was being prepared there was still a possibility that the drought might continue. Applicant concedes that the well installation now can reasonably be postponed. We have excluded the well from both 1978 and 1979 capital additions.

In regard to other specific and nonspecific well improvements, it was the position of the staff at the time its report was prepared that 33 of applicant's wells should be retired and abandoned. The staff therefore concluded that it would not be cost-effective to repair facilities which could soon be retired. Applicant's chief engineer testified that the decision to repair pump facilities is based upon careful consideration of all of the facts. He cited the localized need for water from the specific wells for which pump repairs or replacements were included in the budget and indicated that similar careful consideration is made when the nonspecific items are considered. This should eliminate any chance of investing capital in well facilities that will not be needed. We have adopted applicant's estimates for this type of additions, other than the Well No. 80-01 hereinbefore discussed.

As indicated above, the staff recommended that 33 wells be retired and physically abandoned. For ratemaking purposes, the staff urged that the remaining undepreciated original cost of these wells be amortized over a short period. During the amortization period, the staff proposed to allow the company a return on the unamortized portion of its investment.

Applicant objected to physical abandonment of the wells. It argued that until specific wells are retired because of physical conditions such as age or poor water quality that the public would benefit by keeping many of them on line for peaking supply and pressure stability and by retaining the rest as standby, backup, or emergency sources. City and Stockton-East also objected to the physical abandonment of any well which was capable of any public use, even in a standby or emergency mode.

Because of the public and protestant response to the physical abandonment proposal, the staff withdrew it at the end of the hearing. However, the staff continued to recommend that these wells be retired on applicant's books of accounts by means of the amortization proposal. The staff proposal would achieve a modest net savings for the consumer over a ten-year period; however, the immediate short-term effect would be a slight increase in revenue requirements. The staff proposal as an abstract proposition has much merit and we would be more inclined to adopt it if it had received any significant local support by consumers or appearances claiming to represent consumers. It appears, however, that most members and representatives of the consuming public would prefer not to retire these wells early if the result is any increase in applicant's revenue requirement.

The City advanced four arguments in support of its claim that the 33 wells can be disallowed thus permitting a reduction in both depreciation expense and in return.

The first argument is that the wells have lost their value because of natural circumstances and because of overpumping. In essence, this is a claim that the company underdepreciated its wells and associated equipment in prior years. The parties were asked to submit briefs on the constitutionality of a disallowance based on this theory. None of them adequately addressed the legal issue.

However, it is not necessary to reach that issue; there is no evidence of record which would indicate that the wells will not again be capable of producing satisfactory quality water, once overpumping ceases. To the extent that the wells will recover and again become capable of supplying adequate quality water, even if at somewhat reduced quantities, they cannot be classed as not useful.

The second theory is that the wells were rendered valueless by the construction of Stockton-East's water importing system which provides a substitute source of water.

Sections 1501 and 1503 of the Public Utilities Code provide:

"1501. The Legislature recognizes the substantial obligation undertaken by a privately owned public utility which is franchised under the Constitution or by a certificate of public convenience and necessity to provide water service in that the utility must provide facilities to meet the present and prospective needs of those in its service area who may request service. At the same time, the rates that may be charged for water service by a regulated utility are fixed by the Public Utilities Commission at levels which assume that the facilities so installed will remain used and useful in the operation of the utility for a period of time measured by the physical life of such facilities.

"The Legislature finds and declares that the potential loss of value of such facilities which may result from the construction and operation by a political subdivision of similar or duplicating facilities in the service area of such a private utility often deters such private utility from obtaining a certificate or extending its facilities to provide in many areas a water supply essential to the health and safety of the citizens thereof.

"The Legislature further finds and declares that it is necessary for the public health, safety, and welfare that privately owned public utilities regulated by the State be compensated for damages that they may suffer by reason of political subdivisions extending their facilities into the service areas of such privately owned public utilities."

* * *

"1503. The Legislature finds and declares that whenever a political subdivision constructs facilities to provide or extend water service, or provides or extends such service, to any service area of a private utility with the same type of service, such an act constitutes a taking of the property of the private utility for a public purpose to the extent that the private utility is injured by reason of any of its property employed in providing the water service being made inoperative, reduced in value or rendered useless to the private utility for the purpose of providing water service to the service area."

The two systems should be held to render "...the same type of service..."; even though the source of supply is different, requiring a different form of plant, the ultimate function is the same. Water is water, whether it is pumped from the ground or from a remote reservoir.

Since these statutes are applicable, there is no action this Commission can take which will relieve Stockton customers of the obligation to repay the undepreciated cost of duplicated plant. We can only affect the manner of payment. If we were to declare that new construction has rendered the wells valueless, this act would impose on Stockton-East, and ultimately its constituents, a statutory obligation to pay for the wells in a lump sum. On the other hand, whether we refrain from deciding or find no reduction in value, applicant's customers will continue to pay for the undepreciated plant periodically in installments together with a return on the declining balance. These installments would continue until the wells are fully depreciated or until Stockton-East decides to purchase or condemn them.

Normally, a governmental entity such as Stockton-East has the unrelieved discretion to determine whether or not to purchase or condemn property. If,however, we were to make the finding in question it would tend to force the District's hand.

Deciding whether and when to purchase these wells will have a direct and significant impact on the District's finances. Further, the District is the best judge of whether it can finance a purchase of the wells under terms more advantageous than the depreciation plus return arrangement under which applicant has provided the capital. Finally, the District includes numerous constituents, and serves water users who are not customers of applicant. This fact could create issues of purely local significance. These considerations persuade us that it would be wise to allow Stockton-East to determine for itself whether it is advisable to purchase any more wells. We will therefore refrain from deciding this issue unless specifically requested by the District.

The City's third theory is that the property should be treated in the same manner as property held for future use. In our opinion, however, such treatment would require a finding that the property will not be used for a specific extended period. For example, in Application of PT&T Company (1954) 53 CPUC 275, at 297 the staff proposed to exclude all property which would not be used for at least two years. The Commission rejected this test, instead using a three-year period. The discussion suggested that even longer periods might be considered depending on the Commission's evaluation of the prudence of the investment. Since there is no evidence as to whether or when any of these wells can be expected to recover, the City's contention must be rejected.

We note that adopting this theory would not permanently remove the plant from rate base. The undepreciated original cost would become a charge against consumers if and when the wells were put back into use.

The City also urges that these wells should be removed from rate base because of applicant's asserted failure "...to develop an alternative program..." or "...to explore feasible methods of disposition of its wells due to become excess..." (City's Reply Brief mimeo. pg. 2.) The City did not, however, specify what feasible methods it had in mind. Consequently, this argument must be rejected.

It appears that applicant's Stockton customers now have two water supply systems, each of which, in the near-term future, will probably be able to supply well over half of the total community demand. If it had been demonstrated that applicant at some point in the past had an option under which it could have avoided committing capital to the wells in question or alternatively some feasible means to recover at least its remaining undepreciated investment, there could be a basis for eliminating these items of rate base. Since there has been no such showing, however, the legislation discussed above requires members of the

public to provide funds either immediately or over a period of years which will allow applicant to recoup that investment. We have indicated that it should be Stockton-East rather than this Commission that determines which of those alternative payment plans is in the public interest.

Other Changes in Well Status

The staff identified five additional wells which it recommended be retired soon. Applicant's chief engineer testified that four of those wells already had been retired by the time of the adjourned hearings. He explained that they would have been retired earlier were it not for the drought. If the drought had continued, applicant might have found it necessary to attempt to utilize those wells. He was a little reluctant to retire the fifth well, however, unless and until he determined that such retirement would not be adverse to the public interest. Applicant stipulated, however, that it did not object to the assumed retirement of all five wells for the purpose of setting rates in this proceeding. The summaries of earnings in Table II reflect that stipulation.

We take official notice that since submission of this proceeding, Stockton-East has purchased two of the company's most productive and least depreciated wells. This will permit a further reduction in rate base as well as in some related expense items. These changes are reflected in the adopted rates.

Proceeds from the Sale of Wells

The staff recommended that if applicant sells any wells for a price in excess of net book value that the property be recorded in applicant's books as a contribution in aid of construction. This would make the profit a deduction from rate base in future rate proceedings. Applicant's president stipulated to that procedure although noting that it would be a departure from the Uniform System of Accounts. He further indicated that in conjunction with Commission approval of any sale that the company would cooperate in establishing an appropriate reduction in rates to match the total reduction in rate base resulting from such sale. We have adopted this stipulation.

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 recommendations 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 July 25, 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 10.38 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 Stockton District and need not be repeated in full in this decision. We should reemphasize that one of our principal reasons for rejecting company's compromise 10.15 percent rate of return is that this would require Stockton, and other districts in which recent rate decisions are in effect, to subsidize customers in other districts where older rates are in use and the authorized rates of return are lower.

We will also emphasize that we have disregarded the company's projection that a 2.50 coverage ratio is necessary to maintain an A rating on its bonds. There is always a great deal of uncertainty in relating a particular level of earnings to a desired bond rating. That uncertainty is particularly marked at the lower end of any particular rating level; we do not therefore believe that it is possible to obtain a reliable prediction that any particular coverage level is the minimum necessary to maintain a particular bond rating.

A principal theme of the arguments by nonappearances and by public witnesses was that Stockton customers by reason of the City's depressed economic situation and the expense of supplying imported water should not be expected to pay the minimum lawful rate of return on applicant's local investment. In essence, those community representatives are proposing that applicant's other consumers should be compelled to subsidize those who reside in the Stockton District.

Such a requirement would be inconsistent with our decision that rates of return in this and other recent cases should not subsidize other districts. Further, none of those customers have been notified that this community is seeking to compel them to pay more for water service than the amount needed to cover applicant's operating and capital costs in their respective districts. None of these customers have been afforded an opportunity to be heard in opposition to a proposal which could be expected to generate intense opposition in these other districts.

We will therefore determine that no such subsidy is warranted here.

Trend in Rate of Return

In some prior rate decisions involving other districts of applicant, the predictable future downward trend in rate of return has been offset by the authorization of a single 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, the Commission chose 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 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.

Applicant calculated the estimated rates of return for 1977, 1978, and 1979 which would result from assuming a constant water rate at the level requested by applicant for 1979. That study showed declines of 0.83 percent from 1977 to 1978 and 0.40 percent from 1978 to 1979, or an average of 0.61 percent for the three-year span. Under applicant's proposed results of operations, if the 1979 authorized rates were applied to both 1978 and 1979, the indicated decline for that two-year span would be 0.52 percent, or 0.12 percent greater than originally estimated for that two-year period by applicant. Applicant stipulated, however, that it would have no objection to the Commission's use of applicant's original three-year span estimate of decline in designing 1980 step rates which would just offset that decline.

The staff estimates that applying the 1978 requested rates to 1978 and 1979 operations would result in a 0.23 percent decline over the two-year span. The staff recommended that, if the Commission were to adopt its estimate of 0.23 percent decline, step rates should not be authorized. The difference between the staff's estimated decline and applicant's is primarily due to the staff's (1) exclusion of plant improvements and (2) assumptions as to deliveries of Stockton-East water.

Our calculations show that under the rates we have adopted attrition will be .29 percent between 1978 and 1979 test years. Under previous Commission decisions this amount is sufficient to justify step rates as an allowance for attrition. Unlike some previous decisions, the orders adopted herein require applicant to provide feedback on the actual attrition rate experienced; step rates will be reduced or eliminated if the attrition estimate is too generous.

We should, however, state that the policy underlying step rates needs careful review. When these policies were first established, it was assumed that the only alternative to step rates was the filing of new rate cases for each district with a high degree of frequency, perhaps annually. It was also assumed that this result would overwhelm our staff, producing either poorly researched staff presentations or an unacceptable degree of regulatory lag.

We expect the next series of proceedings to evolve a policy based on an evaluation of the trade-offs between such matters as district-by-district phasing, step rates, and averaged rates of return with such other factors as manpower availability, regulatory lag, costs of litigation, and investment risk..

In the other four of applicant's rate proceedings, the staff recommended that applicant be required to file an advice letter at the end of 1978 and 1979 to justify the next year's step rate, based upon the adopted normalized consumption. We note, however, that this would not give the staff any time to analyze the advice letter before the next step is due to become effective. To provide adequate review time, applicant will be expected to file its advice letters at least six weeks prior to the end of each year, based upon reasonably current "12-month ending" data.

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 or (2) the quantity rate for the first 500 cubic feet of consumption each month. In more recent lifeline rates prescribed by the Commission, recognition has been given 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, which were also used in designing the rates authorized herein, are:

"1. The lifeline quantity block should be reduced from the first 500 c.f. to the first 300 c.f.

"2. In lieu of the applicant's two-block rate structure, retain the three-block structure for the general metered service with rate over 30,000 c.f. being less than the preceding block in order not to severely increase the charges for the food processing plants as follows:

First	300	c.f. (lifeline)
Next	20,700	c.f.
Over	30,000	c.f.

"3. Since January 1, 1976, there has been two offset increases in rates for a cumulative total of 12.1 percent. If the utility requested rate increase were permitted, the cumulative total would be further increased to 35.5 percent. We suggest 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 the other system customers.

"4. Service charge for the 5/8 x 3/4-inch meter be increased in succeeding years to retain the percentage of the charge for the 3/4-inch meter and others."

We have elsewhere explained our decision to require a separate statement of the amounts each customer must pay to Stockton-East; we have also explained why we would prefer that Stockton-East participate actively in devising a method of spreading the importation project's revenue requirements among and between its constituents. For the purpose of this proceeding, however, the amount of each customer's obligation to provide funds to repay the financing for Stockton-East's capitalization and operations will spread on the same basis as applicant's own revenue requirement. Our analysis of the 1978 revenue requirement would require the average domestic customer (one using 20 Ccf per month) to pay approximately $4.84 per month indirectly to Stockton-East.

Other Staff Recommendations and Comments

Several additional recommendations and comments were included by the staff in its exhibits and testimony relating to operations of the company as a whole and all of the districts under study. They do not affect the rates to be authorized and therefore need not be the subject of findings, conclusions, and the order herein. The discussion that was included in the Salinas District decision hereinbefore mentioned will not be repeated here. The topics covered are:

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

Other recommendations and comments not previously discussed herein were included by the staff in its exhibits and testimony relating to the specific operations in the Stockton District. Again, these do not directly affect the rates but warrant discussion. The topics covered are:

1. Customer deposits to establish credit.
2. Accounting for "wheeling" charges.
3. Balancing accounts.

In regard to customer deposits to establish credit, the staff recommends that applicant revise its tariffs to avoid holding customers' deposits for long period of time during which they fail to establish credit by not being delinquent for 12 consecutive months. Applicant's rules on this subject are essentially the same as those of the other 400-odd water utility systems under the Commission's jurisdiction. Applicant

suggests that, if the staff no longer considers the standard rules appropriate, new rules should be proposed by the staff and circulated to all of the water utilities for comment. We agree that applicant's suggestion is preferable to a piecemeal approach for revising standard rules.

In regard to accounting for "wheeling" charges, the staff recommends that applicant record these charges in Account No. 609, Other Sales or Services, rather than in Account No. 526, Miscellaneous Nonoperating Revenue. Inasmuch as both applicant and staff historically have considered this type of charge as either operating revenue or as an offset to operating expenses for ratemaking purposes, applicant stipulated that it would follow the staff's recommendation in the future for such charges.

The balancing account for payments to Stockton-East requires consideration of Section 792.5 of the Public Utilities Code effective January 1, 1977. That section requires a balancing account when offset increases are granted so that the Commission can take into account any positive or negative balance remaining in the account at the time of any subsequent rate adjustment.

The basic principle is that when the Commission prescribes offset rates, a certain portion of the resulting revenue is related to the revenue required to cover specific expense items. If that portion of the revenue just equals the expense items it was designed to cover, the revenues recorded in the balancing account will equal the expenses recorded therein, and the account remains in balance. The utility then will have collected from its customers no more and no less than the utility paid out for the specific items.

The special balancing account situation in the Stockton District commenced prior to enactment of Section 792.5. Decision No. 85138 dated November 18, 1975 in Application No. 55686 authorized applicant to increase its rates to offset "Water Service Guarantee Payments" to be paid to Stockton-East prior to actual receipt of imported water. Those payments enabled Stockton-East to complete its treatment and storage facilities. Stockton-East's general manager testified that, because of those payments to the district by applicant's customers, the customers now pay no capital charges to the district related to the facilities installed with customer funds. This is similar in end result to the treatment accorded by the Commission when "customers' contributions in aid of construction" are paid for additions to a utility's plant.

Initially, this special balancing account was relatively simple. The changes in rates authorized by Decision No. 85138 were simply the differences between the new rates and the old rates in the various service charges and quantity rates. That portion of applicant's rate structure, spread to the various classes of customers, generated the total amount of monthly revenue to be entered in the balancing account. The offsetting expense item was the single item of monthly payments to Stockton-East. At that point, there were no changes in applicant's physical operations related to the change in level of expenses.

Decision No. 85138 provided, among other things, that any overcollection in the balancing account when water was first delivered by Stockton-East should be applied to the payments to Stockton-East for water pursuant to the contract. The decision further required that the balancing account be maintained for the entire 30-year life of that contract. As it happens, there was actually a $118,560 accumulated undercollection at the time the Water Service Guarantee Payments ceased and payments for water deliveries commenced. Although Decision No. 85138 did not specifically cover the treatment to be accorded an undercollection, applicant considered that the requirement to maintain a balancing account for the life of the contract implicitly required that any balance, whether positive or negative, be carried forward.

With the transition from Water Service Guarantee Payments to payments for water deliveries, the situation became more complex. In Advice Letter No. 518, applicant explained that the further rate increase requested therein was to offset not just a change in rates, i.e., the higher annual payments to Stockton-East, but also to reflect a change in operations, i.e., substitution of imported water for part of the well water supply. Applicant requested rate changes which reflected not only the increased revenue requirement related to the higher payments to Stockton-East, but also the offsetting reductions in applicant's pumping and purification costs resulting from delivery of treated water by Stockton-East. It would not have been fair to the customers to have excluded the savings from consideration.

Applicant indicated in Advice Letter No. 518 that the scope of the established Water Service Guarantee Payment Balancing Account should be enlarged to include all water production costs. Resolution No. W-2070 dated February 23, 1977 in response to Advice Letter No. 518 did not address the subject of enlarging the scope of the balancing account but merely included the "stock" ordering paragraph referring to Code Section 792.5, which paragraph is normally applicable to offsets of changes in rates for purchased water, purchased power, pump taxes, and other items.

Inasmuch as Resolution No. W-2070 granted the increase which was based upon changes in all production costs resulting from use of imported water, applicant assumed that it represented tacit approval by the Commission of the expanded scope of the balancing account. To implement that expansion, applicant determined what portion of the rate structure in the last general rate proceeding had been designed to cover production costs. Adding that to the rate changes authorized in Decision No. 85138, in Resolution No. W-2070 and in the various other offsets of changes in water production costs since Decision No. 85138, gave the updated portion of applicant's rate structure intended by the Commission

to generate revenues which would just offset total production expenses. That revised, enlarged portion of applicant's rate structure, applied to the actual number of customers for each size of service and to actual sales in each rate block, generated the expanded amounts of monthly revenue to be entered in the balancing account. The corresponding expenses to be entered were now (1) the monthly payments to Stockton-East, (2) the pump taxes paid to Stockton-East, (3) purchased power for pumping, (4) chemicals, and (5) local franchise taxes payable on the gross revenue collected to offset water production costs.

During the 1977-78 water year, when Stockton-East reimbursed applicant with approximately $380,000 of federal drought-relief funds for the extra water production costs resulting from Stockton-East's delivery of less than the contracted water supply, applicant flowed the benefits of those reimbursements through to its customers as credits to expenses recorded in the subsidiary Water Production Cost Balancing Account. The end result of those entries was to make water production expenses chargeable to customers no greater than if Stockton-East had been able to supply applicant's full entitlement during the drought.

Despite the $380,000 channeled to applicant's Water Production Cost Balancing Account, that account continued to accumulate a deficit during 1977. The deficit approached $130,000 at the end of that year. The principal reason for the deficit is that the rates authorized by the Commission to offset total water production costs did not anticipate the substantial voluntary conservation which actually occurred. With the large portion of the production cost being fixed monthly payments to Stockton-East, the revenue loss from reduced consumption far exceeded the related reduction in overall production expense.

The staff recommended that the company be prohibited from carrying forward the accumulated deficit for guarantee payments into the balancing account for water supply payments to Stockton-East. We cannot agree. This would require the company to absorb a substantial outlay made by it in good faith for a project which benefited both Stockton-East and ultimately its own customers. The rates established will produce enough revenue to amortize the accumulated deficit over a three-year period. In order to avoid confusing customers as to the size of their current obligation to Stockton-East this deficiency will not be incorporated into the balancing account.

A new single element balancing account will be commenced at a zero level with the surcharge revenue as the only credit and the payments to Stockton-East as the only negative entry. This will be consistent with our view that these payments are essentially a matter between Stockton-East and its constituents and are a means whereby utility customers are compelled to service a public debt undertaken to provide a necessary facility which for economic reasons could not or should not be built with capital raised by the serving utility itself (cf Quincy Water Co. D.88973 in A.57406 (1978)). Applicant would have preferred to allow the balancing account to continue hoping that future operations would generate enough net credits to bring the account back into balance.

To allow such a procedure would be to take one step closer to continuous post facto ratemaking and a guaranteed rate of return. That is not to say that the procedure is to be condemned out of hand; however, it is such a significant departure from normal procedure that it should not be adopted without careful consideration of both economic and legal aspects. A joint industry-staff committee on balancing accounts is now functioning and this is an appropriate issue for consideration by that body.

Evidence of Stockton-East

The evidence submitted by Stockton-East consists essentially of (1) graphs based primarily on data presented in tabular form in applicant's exhibits, and (2) comparisons of applicant's present and proposed rates with those of several water systems in other communities. Most of the rates compared were of municipally owned systems.

Applicant argued that we should disregard the showing. It claims that the fact that water rates vary among different communities, regardless of whether the water systems are publicly or privately owned, is not unusual or surprising. It noted that the rates of private utilities provide funds to city, county, state, and federal governments through payment of taxes and fees. Such is not the case with municipal systems. Also, it pointed out that investor-owned water utilities are precluded by the Commission's General Order No. 103 from charging the "connection fees" levied by many municipal systems. The uniform water main extension rule prescribed by the Commission provides for refundable subdividers' advances instead of the nonrefundable subdividers' contributions received by many municipal systems. Applicant claimed that the rates of two similar investor-owned systems can legitimately vary considerably. If the plant for one was installed originally or replaced more recently than the plant for the other, the effect of inflation and of the differing depreciation reserves at any given time can have significant effects on the rate base and hence on the revenue requirement. It argued that there is a similar effect in the Stockton District relating to the imported water. Primarily due to the fact that the required transmission and treatment facilities were built at today's inflated construction cost levels, the payments made by applicant to protestant Stockton-East are high. The information on Table II shows that, at the rates authorized herein, payments for purchased water constitute almost half of applicant's total expenses before income taxes and almost one-third of all the revenues collected from the Stockton District customers.

The staff argues that it is always difficult to make valid comparisons since it is nearly impossible to adequately answer questions such as the following: Are the overall rate structures the same? How long have the present rates been in effect? When is a rate change contemplated?

With respect to the first question two factors must be considered according to the staff. First, of the eleven purveyors in the comparison, only two, applicant and East Bay Municipal Water District, have lifeline rates. A lifeline rate structure tends to shift the rate burden from the smallest of consumers to all others. Second, publicly owned water purveyors generally have much higher connection fees for new customers than the connection fees allowed to be charged by a Commission regulated utility. Income from such fees allows the publicly owned water purveyor to charge lesser monthly rates and still maintain the same total revenue. Of the eleven purveyors in the sample, only applicant and Del Este Water Company are regulated by this Commission.

The staff notes that there is no evidence in the record as to how long rates have been in effect for purveyors other than applicant. The staff also notes that the city of Modesto, Del Este Water Company, Sacramento, and Lodi all can supply their customers' needs from local ground water as applicant used to do. It also notes that the cost of San Francisco's water importation program is largely offset by revenues from power it generates.

The criticisms of both the staff and applicant are well founded. Unless the systems to be compared are selected for comparability or unless adjustments are made for items such as purchased water and taxes, the comparison would be as meaningless as a horse race where one of the horses must carry two riders.

Other Issues Raised by Complainants

The City challenges the use of the four-factor method used by both the staff and applicant to allocate certain total company expenses between Stockton and other areas served by applicant. As described in its brief, its proposed allocation method involves a more detailed breakdown of certain subaccounts; it claims that this "...more appropriately allocates..." these expenses, and is "...more accurate..."

The four-factor method has been in use for applicant's operations for some time. It was expressly approved in an App. of Calif. Wtr. Service (1960) 57 CPUC 751, at 753 with the following explanation:

> "The allocation of common expenses, taxes and utility plant was fully reviewed in the record. Four factors for the allocation to districts of such items not directly assignable to the operating districts were used by the staff. These are (1) weighted average gross utility plant; (2) the average number of customers; (3) the number of employees as measured by direct operating payroll; and (4) the direct operating and maintenance expenses in each operating district. The main difference between the staff and applicant's method was the use by the staff of the factor of direct operating and maintenance expenses. The applicant did not include this factor and contended that the use of this factor would result in substantial fluctuation from year to year of amounts allocated to districts where such expenses consisted mainly of water purchases, or where such purchases vary between a wet and dry year. The evidence shows these expenses, as well as any others, should be reflected and that variations as between wet and dry years are not of such magnitude as to compel exclusion of the fourth factor. We have carefully weighed the evidence before us, and are of the opinion that a four-factor method provides an equitable allocation to all districts of general office expenses, taxes, and utility plant not directly assignable, and the adopted results are based upon such method."

That decision is not res judicata. Nevertheless where such a determination has been incorporated in the rates for all of applicant's districts for an extended period it should not be modified without at least an affirmative showing that it contains some defect.

In this case the City's witness failed to make any such demonstration; his criticism of the four-factor method and his preference for his own method are apparently purely subjective.

Further even where City's witness did use the four-factor method, he incorrectly excluded payments to Stockton-East. The exclusion was based upon the witness' conclusion that the payments were "nonrecurring expenses" because in the period under study they were called "Water Service Guarantee Payments". This completely ignores the fact that, upon transition to "Water Payments", the expenses will continue and indeed increase. We reaffirm the four-factor method as used by applicant and the staff.

Many customers and customer representatives argued that rate increases work a special hardship on Stockton's large minority population, those with low income and the unemployed. Under the lifeline concept incorporated in the metered service rates, however, low-usage customers get the benefit of lower rates than the rates charged for greater use.[4/]

Another common concern expressed was the impact of rate increases on very large users, such as the canning industry. Some fear that the relatively high total cost of delivering water in applicant's Stockton District as compared with other communities will drive away or keep away industrial customers, with resulting adverse impact on the economy of the area and on employment opportunities.

At the recommendation of our staff, we have adopted a "tail block" rate to produce reduced unit charges for users of large quantities of water; this measure, concurred in by applicant, will in some measure, limit the cost burden on the so-called "wet" industries which Stockton desires to attract and retain. However, unless we were to shift most of the costs of applicant's operations to residential consumers, it is and will be impossible to establish industrial rates for Stockton's imported water which are competitive with those in communities which are able to rely completely on local well water.

4/ We have imposed a higher proportion of this rate increase on those who consume more. For example, a domestic customer who consumes 38 cu.ft. will experience a 21 percent increase over his present billing; customers who limit themselves to 11 cu.ft. will find that their increase is only 15 percent.

Miscellaneous other points were raised in the public statements, such as bidding practices which result in applicant's having work done by the same contractor each year, and the concept that granting of rate increases by the Commission insures applicant's stockholders a specific return on their investment. The record shows that, in fact, the same contractors do not always submit the lowest bid and that the "favored" contractor referred to lost out to a lower bidder on applicant's most recent unit cost contract. In regard to the "guaranteed return" on a utility stockholder's investment, the Commission is legally required to establish rates which give the utility a reasonable opportunity to earn a return equal to that enjoyed by other investors in projects with comparable risks and opportunities. Our ratemaking procedure does not guarantee a return. Rather, we fix rates based on estimates of revenues and expenses in the near term future. If the estimates we adopt are too optimistic or if unforeseen events such as a drought occur, a utility will temporarily earn less, possibly significantly less than a fair return. Applicant claims that the drought and related conservation measures caused it to absorb a revenue shortfall of over half a million dollars (over six months net return at present rates) before the drought surcharge was instituted.

While it is not unknown for utilities, either because of unduly pessimistic estimates or by extra efficiencies, to achieve higher earnings than intended, such situations are usually only temporary with the benefits being quickly eroded by inflation.

Relationship Between Applicant and Stockton-East

In App. of Quincy Water Co., supra, we considered the problems encountered when one public agency had decided that utility system improvements were needed and another had furnished the capital for the project. At issue was the manner in which the customer would be required to repay the latter entity's investment. In that case the problem arose under the Safe Drinking Water Bond Act (Water Code Section 13850 et seq.) which provided for the proceeds of state bonds to be loaned to private companies for improvements mandated by the California Department of Health.

Despite some superficial differences the New Hogan project provides many parallels with the policy issues presented in that proceeding. Here as in Quincy the total system dedicated to the customers' service includes both privately financed and publicly financed plant. In Quincy the public utility customers were in effect responsible for repaying. Here the water supply contract in effect imposes a similar obligation on applicant's customers except to the extent that a minor portion of the total obligation is shared by the retail customers of other public systems in the Stockton area.

In the Quincy matter we required that the utility conduct a public information program concerning the project and its financing and provide an opportunity for consumers to voice their opposition to either. In this case no such requirement was made on the assumption that the campaign for voter approval of the financing would provide adequate disclosure and public participation in the decision-making process. The comments by public witnesses and representatives indicate that this assumption may not have been sound. It appears that much of the public imput to this proceeding has been motivated directly or indirectly by the belief that the cost of the Stockton-East project could be offset by comparable reductions in applicant's costs, or subsidized by applicant's other systems.

One other Quincy requirement was that the charges for the public financing be separately stated on the utility bills rendered to consumers; such requirement is especially appropriate here to clearly distinguish those elements of the monthly bill which are regulated by us and those which are the responsibility of the District's elected governing board.

There is another advantage to be gained by requiring separate statements. If the District payments were to continue to be included in a single unsegregated water bill, Stockton-East's board would automatically be governed by our rate spread policy. We believe, however, that since a significant portion of the total water payment is flowed through to Stockton-East's own constituents that the District

should have the opportunity to effectuate its own policies by means of rate spread. While we are not in a position to delegate our responsibilities to the District, we believe that our plans to spread this portion of the total charges should be tentative only and that we should be prepared to modify them should the District's board devise and propose a rate spread for its portion of the total bill. For the purposes of this proceeding we will spread the District's charges in the same manner as the rest of the bill. The information will be conveyed to customers as a portion of the total bill stated both in percentage and dollar amounts.

Our ultimate goal is that applicant should become, insofar as legally possible, a mere conduit between Stockton-East and its customer/constituents insofar as Stockton-East's revenues and rates are concerned.

At the initial hearings, Stockton-East presented testimony to the effect that a carryover of expense savings from the 1977 water year, together with federal funds for drought relief, will be available to reduce Stockton-East's 1978 charges to applicant under their water supply contract. At the adjourned hearings, the staff's Exhibit 33 shows that the $2,665,524 rate payable to Stockton-East for the 1977 water year (from April 1, 1977 through March 31, 1978) was reduced to $2,634,200 for the 1978 water year. Applicant agrees that this 1.2 percent reduction in payments to Stockton-East should be recognized in setting rates. We have done so in the results adopted in Table II.

Ad Valorem Tax Reductions

Subsequent to the submission of this proceeding City proposed that a decision be held in abeyance pending a determination of the effects of the adoption of Proposition 13.

The Commission on June 27, 1978 adopted an Order Instituting Investigation (OII) to determine the impact of that proposition on the rates of all regulated utilities including applicant (OII 19). That order required, among other things, the filing of estimates of reductions

and the institution of a Tax Initiative Account, and encouraged the immediate filing of advice letter rate reductions to offset the expected savings. It also indicated that all existing rates based on prior estimates of ad valorem taxes were subject to refund.

The applicant filed Advice Letter No. 630 on July 28, 1978 to reduce rates to offset the $228,200 estimated ad valorem tax savings resulting from Article XIII-A. The gross reduction of $228,200 was flowed through to present rates on the basis of the 1978 estimated normalized annual water consumption of 11,369.9 KCcf, which is the sales volume adopted by this decision.

The estimate appears to be reasonable.

We will adopt this estimate in calculating the amount of tax expense and the revenue requirements herein. The adjustment appears in the adopted rates of Table II. We recognize that there may be a need for further minor adjustments as more precise information becomes available. However, if there is an overcollection, the balancing account procedure set forth in Paragraph 6 of OII 19 will ensure that either over- or undercollections will be adjusted.

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 0.29 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 $1,218,800, or 19.2 percent, in annual revenues for 1978; a further increase of $127,600, or 2.0 percent, for 1979; and a final increase of $105,300, or 1.4 percent, for 1980.

5. The average consumption per customer, including business and domestic customers, should be estimated at 261.3 Ccf minus a 10 percent residual conservation adjustment.

6. Applicant will be able to draw and use 22,000 acre-feet in 1978 and 24,000 acre-feet in 1979 from Stockton-East.

7. There is insufficient evidence that construction of either specified main project or the computer control system is necessary to maintain at least tolerable service levels or that they will reduce applicant's costs. Applicant's service standards are not appropriate for the City. Instead of a very highly reliable system applicant's Stockton customers are generally willing to accept merely tolerable service if cost savings will result. They should not be expected to pay the costs of a more reliable or serviceworthy system.

8. It is premature to determine whether Stockton-East construction has rendered 33 of applicant's wells valueless. It is likewise premature to determine whether deterioration of the water table has rendered any of said wells valueless.

9. As Stockton-East has recently purchased two of applicant's wells, rate base and expense estimates should be adjusted to reflect this change.

10. There is no basis for a finding that the four-factor allocation method unreasonably benefits any of applicant's districts.

11. Applicant's estimate of Proposition 13 effects is reasonable; a reduction of income tax expense and a comparable reduction in gross revenue requirement of $228,200 is appropriate.

12. Applicant should become a conduit between Stockton-East and its constituents for rate purposes; the charges needed to provide Stockton-East's revenue should be separately stated from the charges necessary to provide for the costs, including the costs of money, of applicant.

13. The comparisons with other private and public utility water systems offered in this proceeding cannot be relied on.

14. 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.

15. Applicant's wells and Stockton-East's system for importing and treating water render the same type of service to the same service area; Stockton-East's plant is a duplicating facility.

16. Section 792.5 of the Public Utilities Code was adopted subsequent to the institution of the purchased water balancing account.

17. A rate of return attrition rate of 0.29 percent per year is sufficient under previously accepted standards to justify step rates.

18. The issue of temporary or interim relief is now moot.

19. The United States Congress approved Revenue Act of 1978 - HR 13511 (Bill) on October 15, 1978. It is expected that the President will sign the Bill. One of the provisions of the Bill would reduce the corporate tax rate from 48 percent to 46 percent effective January 1, 1979. The Bill will reduce the utility's federal income tax liability beginning January 1, 1979.

20. If the Bill is signed by the President, applicant should file an advice letter for its Stockton District by December 2, 1978 requesting rate reduction resulting from the enactment of the Bill. The reduced rates are to become effective no sooner than January 1, 1979.

Conclusions

1.a. When a duplicating facility has been found to have reduced the value of existing utility plant the public body constructing the facility is obligated to pay the amount of the reduction to the plant's owner.

b. If the owning utility continues to collect rates which include depreciation and earnings on the declining balance, the owner has no right to be compensated by the public body.

c. As a matter of comity, Stockton-East should determine whether a lump sum payment or payment in installments is preferable and should be free to determine the timing of any change. If this Commission were to reduce rate base because of duplication it would eliminate Stockton-East's freedom of action in this regard.

2.a. Applicant's Stockton customers should not be required to subsidize other communities served by applicant because the rate of return found reasonable in those communities is older and lower.

b. Applicant's Stockton customers should not receive a subsidy from customers in other areas because of its inadequate ground water supply.

3. Rate comparisons cannot be used in establishing rates without a reliable method of eliminating or adjusting for significantly unavoidable differences.

4. The step rate increases specified in Appendices B and C should be reduced or eliminated if return on rate base using normal ratemaking adjustments, including climatic adjustments, on a normalized 12-month period ending on September 30 of the previous year exceeds 9.95 percent.

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

6. Because of the elapsed time since this application was filed and because applicant requires prompt rate relief, the effective date of the order should be the date hereof.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant California Water Service Company is authorized to file for its Stockton 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 November 15, 1978, applicant is authorized to file an advice letter, with appropriate work papers, requesting attrition offset increases 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 for consumption over 300 cubic feet per month in the event that the Stockton District rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the twelve months ended September 30, 1978, exceeds 9.95 percent. Such filing shall comply with General Order No. 96-A. The staff will evaluate this request and, if appropriate, prepare the necessary resolution for the Commission's consideration.

3. On or before November 15, 1979, applicant is authorized to file an advice letter, with appropriate work papers, requesting attrition offset increases 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 for consumption over 300 cubic feet per month in the event that the Stockton District rate of return on rate base adjusted to reflect the rates then in effect and normal rate-making adjustments for the twelve months ending September 30, 1979, exceeds 9.95 percent. Such filing shall comply with General Order No. 96-A. The staff will evaluate this request and, if appropriate, prepare the necessary resolution for the Commission's consideration.

4. Applicant shall institute a new Water Cost Balancing Account as specified in the foregoing discussion.

5. Applicant's request for a preliminary decision is denied.

6. If the Revenue Act of 1978 - HR 13511 (Bill) is signed by the President, applicant shall file an advice letter for its Stockton District by December 2, 1978 requesting rate reduction resulting from the enactment of the Bill. The reduced rates are to become effective no sooner than January 1, 1979.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th day of OCTOBER, 1978.

President

Commissioners

Commissioner Robert Batinovich, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. ST-1

Stockton Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Stockton and vicinity, San Joaquin County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 5.50	(I)
For 3/4-inch meter	8.00	|
For 1-inch meter	10.80	|
For 1½-inch meter	15.00	|
For 2-inch meter	20.00	|
For 3-inch meter	36.00	|
For 4-inch meter	50.00	|
For 6-inch meter	83.00	|
For 8-inch meter	121.00	|
For 10-inch meter	149.00	(I)
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	.320	(I)
For the next 29,700 cu.ft., per 100 cu.ft.	.441	|
For all over 30,000 cu.ft., per 100 cu.ft.	.310	(I)

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.

APPENDIX B

Schedule No. ST-1

Stockton Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Stockton and vicinity, San Joaquin County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 5.61	(I)
For 3/4-inch meter	8.20	|
For 1-inch meter	11.00	(I)
For 1½-inch meter	15.00	
For 2-inch meter	20.00	
For 3-inch meter	37.00	(I)
For 4-inch meter	51.00	|
For 6-inch meter	85.00	|
For 8-inch meter	123.00	|
For 10-inch meter	152.00	(I)
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	.326	(I)
For the next 29,700 cu.ft., per 100 cu.ft.	.449	(I)
For all over 30,000 cu.ft., per 100 cu.ft.	.311	(I)

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.

APPENDIX C

Schedule No. ST-1

Stockton Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Stockton and vicinity, San Joaquin County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 5.69	(I)
For 3/4-inch meter	8.30	|
For 1-inch meter	11.20	|
For 1½-inch meter	16.00	|
For 2-inch meter	21.00	|
For 3-inch meter	38.00	|
For 4-inch meter	52.00	|
For 6-inch meter	86.00	|
For 8-inch meter	125.00	|
For 10-inch meter	154.00	(I)
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	.330	(I)
For the next 29,700 cu.ft., per 100 cu.ft.	.455	(I)
For all over 30,000 cu.ft., per 100 cu.ft.	.312	(I)

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.