

Decision No. 90437 JUN 19 1979

ORIGINAL

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)	Application No. 58091
Order authorizing it to increase)	(Filed February 16, 1979)
rates charged for water service)	
in the Bear Gulch District.)	
)	
)	
)	

McCutchen, Doyle, Brown & Enersen, by A. Crawford Greene, Attorney at Law, for applicant.
J. F. Young, for Southern California Water Company;
and W. H. Fairfield, for City of Dixon;
interested parties.
Peter Fairchild, Attorney at Law, for the
Commission staff.

O P I N I O N

Introduction

Applicant California Water Service Company filed this and five other applications for rate relief in 6 of the 21 individual districts served by the company. This application originally proposed annual step rates which would continue through calendar year 1981, ultimately producing an annual revenue increase of \$1,345,000 or 41 percent. The Commission set public hearing on a consolidated record including all six district proceedings.^{1/}

The hearings were conducted by Administrative Law Judge Gilman in San Francisco on January 8, 9, 10, 12, 17, 18, and 19, 1979; in Menlo Park on January 11, 1979; in Redondo Beach on January 16, 1979; in Oroville on January 23 and 24, 1979; in Marysville on January 25, 1979; and in Dixon on January 26, 1979.

^{1/} The consolidated proceedings are Applications Nos. 58091 through 58096.

Exhibit A in this proceeding indicates that applicant has complied with all requirements for notice, service, and publications applicable to general rate increase proceedings.

The consolidated applications were submitted on February 1, 1979 to allow an opening brief by applicant and a reply brief by staff. An extension was granted to the staff to allow it to file in its brief by March 15, 1979. Further oral argument was set on the subject of rate of return attrition before the Presiding Officer, Commissioner Claire T. Dedrick, with Commissioner Sturgeon and Commissioner Grimes in attendance on March 5, 1979 in San Francisco.

In support of the requests for rate relief in the six districts, applicant presented testimony of its president, its vice president-treasurer, its vice president-chief engineer, its vice president in charge of regulatory matters, and its assistant chief engineer in charge of construction.

The Commission staff presentation in these proceedings was made through an accountant and six engineers.

No presentation was made by any of the four customers in this district who attended the hearing in Menlo Park.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its Bear Gulch District includes the cities of Atherton and Menlo Park, the towns of Portola Valley and Woodside, and unincorporated portions of San Mateo County adjacent to those communities. A substantial portion of the terrain is relatively hilly, with elevations ranging from almost zero feet to more than 1,000 feet above sea level. The population within the area served is estimated at 61,900.

Water for the Bear Gulch District is obtained from two sources; seven metered connections from the San Francisco Water Department and diversion of water from Bear Gulch Creek.

Most of the production from Bear Gulch Creek is piped to Bear Gulch Reservoir, at which point it is chlorinated and filtered. The treated water is lifted by booster pumps into nearby storage tanks, whence it flows or is boosted to distribution and storage in the system. Twenty separate pressure zones are required to serve the area, due to the variations in elevations. There are two engine-driven boosters for emergency use. Also, the principal electrically powered booster stations are equipped with connections which permit the use of portable gasoline-powered booster pumps, one of which is permanently stationed in the district, with others being available at other districts on the San Francisco Peninsula.

The transmission and distribution system includes about 270 miles of mains, ranging in size up to 24 inches, and approximately 225 million gallons of storage capacity. There are about 16,000 metered services, 50 private fire protection services, and 1,460 public fire hydrants.

Service

There have been only three informal complaints to the Commission from this district during 1977 and the first eight months of 1978. The applicant claims that customer complaints received at its district office were quickly resolved. The absence of any customer service complaints at the hearing is a further indication that service is not unsatisfactory.

Rates

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

Applicant proposes to increase its rates for general metered service. The following Table 1 presents a comparison of applicant's present and proposed general metered service rates:

TABLE I
BEAR GULCH DISTRICT
COMPARISON OF MONTHLY RATES

	Present* Rates	Proposed Rates [‡]			Adopted Rates		
		1979	1980	1981	1979	1980	1981
Service Charge:							
For 5/8 x 3/4-inch meter	\$ 3.80	\$ 4.40	\$ 4.75	\$ 5.25	\$ 4.05	\$ 4.20	\$ 4.30
For 3/4-inch meter	4.15	6.50	7.00	7.70	6.25	6.70	7.00
For 1-inch meter	5.65	8.90	9.50	10.50	8.40	9.00	9.50
For 1-1/2-inch meter	7.95	12.40	13.30	14.60	12.00	13.00	14.00
For 2-inch meter	10.20	16.00	17.00	18.90	15.00	16.00	17.00
For 3-inch meter	18.85	31.00	32.00	35.00	29.00	32.00	33.00
For 4-inch meter	25.70	40.00	43.00	48.00	39.00	43.00	44.00
For 6-inch meter	42.70	67.00	72.00	79.00	64.00	69.00	72.00
For 8-inch meter	63.50	99.00	107.00	118.00	95.00	102.00	106.00
For 10-inch meter	78.60	123.00	132.00	146.00	118.00	127.00	132.00
Quantity Rates:							
For the first 300 cu.ft., per 100 cu.ft.	0.497	0.596	0.610	0.629	0.532	0.552	0.562
For the next 200 cu.ft., per 100 cu.ft. ....	.497	.795	.815	.839	.720	.743	.754
For all over 500 cu.ft., per 100 cu.ft. ....	.558	.776	.800	.824	.720	.743	.754

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

* From Tariff Sheet 2209-W, effective January 11, 1979.

‡ Set forth in applicant's Exhibit 37-B, Page 1, which reflects rates set forth in the application minus those portions of the reductions effected by Advice Letters 630 and 652 related to changes in expense levels from those used in the application.

In this district, an average commercial (business and residential) customer will use about 25,000 cubic feet of water per year, or 20 Ccf (hundreds of cubic feet) per month. The corresponding use for an average industrial user in this district is 200,000 cubic feet of water per year, or 170 Ccf per month. The following Table II presents a comparison of monthly charges for an average commercial customer with a 5/8 x 3/4-inch meter under present and applicant's proposed rates. The table also presents similar comparisons for an average industrial customer with a 4-inch meter.

TABLE II

Comparison of Monthly Charges

<u>Item</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Average Commercial Customer</u>			
Present Rates, Monthly Charge	\$14.66	\$14.66	\$14.66
Rates Proposed at the Hearing:			
Monthly Charge	19.42	20.21	21.18
Increase Over Present Rates:			
Amount	4.76	5.55	6.52
Percent	32.5%	37.9%	44.5%
Adopted Rates			
Monthly Charge	\$17.89	\$18.49	\$18.80
Increase Over Present Rates:			
Amount	3.23	3.83	4.14
Percent	22.0%	26.1%	28.2%
<u>Average Industrial Customer</u>			
Present Rates:			
Monthly Charge	120.26	\$120.26	\$120.26
Rates Proposed at the Hearing:			
Monthly Charge	171.42	178.46	187.53
Increase Over Present Rates:			
Amount	51.16	58.20	67.27
Percent	42.5%	48.4%	55.9%
Adopted Rates:			
Monthly Charge	160.84	\$168.74	\$171.60
Increase Over Present Rates:			
Amount	40.58	48.48	51.34
Percent	33.7%	40.3%	42.7%

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table III, based upon Exhibit 37-B, Pages 5 and 6, the final reconciliation exhibit sponsored jointly by applicant and the staff, are the estimated results of operation for the test years 1979 and 1980, under present rates and under the step rates proposed by applicant for those years.

Applicant's original estimates were completed in May 1978. Applicant kept the Commission staff advised on 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 on which there were no issues; it also adopted some estimates where the dollar impact of the potential issue was insignificant. Applicant does not concede that all of the staff's adjustments and estimates of consumption, revenues, and rate base items are proper but, for the purpose of expediting this proceeding, does not take issue with the staff in regard to most items. There are only three contested issues to be resolved with respect to summary of earnings, as shown on Table III. The first two of those issues, relating to general office prorates and the treatment of ad valorem taxes used for income tax purposes, were discussed in detail in Decision No. 90425 in Application No. 58093 involving applicant's Hermosa-Redondo District; no further discussion is necessary here.

TABLE III
(Page 1 of 2)RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS
BEAR GULCH DISTRICT, TEST YEAR 1979

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effect of Issues			Staff's Adjusted Estimates (e)
		G.O. Exp. Prorate (b)	Ad Val. Txs. For Inc. Txs. (c)	Rental of Co. Houses (d)	
<u>Present Rates</u>					
Operating Revenues	\$3,182.9	\$ -	\$ -	\$ 3.2	\$3,186.1
Operating Expenses:					
Purchased Water	1,016.6	-	-	-	1,016.6
Purchased Power	143.8	-	-	-	143.8
Purchased Chemicals	4.4	-	-	-	4.4
Payroll-- District	353.7	-	-	-	353.7
Other Oper. & Maint.	226.6	-	-	-	226.6
Other A & G & Misc.	23.3	-	-	-	23.3
Ad Valorem Tax - Dist.	165.8	-	-	-	165.8
Payroll Taxes	24.1	-	-	-	24.1
Depreciation	327.3	-	-	-	327.3
Ad Valorem Tax - G.O.	1.6	-	-	-	1.6
Payroll Taxes - G.O.	6.6	-	-	-	6.6
Other Prorates - G.O.	244.1	(1.4)	-	-	242.7
Balancing Account Adjust.	(20.0)	-	-	-	(20.0)
Subtotal*	2,517.9	(1.4)	-	-	2,516.5
Uncollectibles	5.7	-	-	-	5.7
Local Fr. Tax & Bus.Lic.	24.9	-	-	-	24.9
Inc. Taxes Before ITC	(29.3)	0.7	(2.8)	1.6	(29.8)
Invest. Tax Credit	(80.7)	-	-	-	(80.7)
Total Oper. Exp.	2,438.5	(0.7)	(2.8)	1.6	2,436.6
Net Operating Revenues	744.4	0.7	2.8	1.6	749.5
Rate Base	11,296.6	-	-	-	11,296.6
Rate of Return	6.59%	0.01%	0.02%	0.01%	6.63%
<u>Proposed Rates</u>					
Operating Revenues	\$ 4,340.0	-	-	\$ 3.2	\$ 4,343.2
Operating Expenses:					
Subtotal*	2,517.9	\$ (1.4)	-	-	2,516.5
Uncollectibles	7.8	-	-	-	7.8
Local Fr. Tax & Bus.Lic.	33.8	-	-	-	33.8
Inc. Taxes Before ITC	553.7	0.7	\$(2.8)	1.6	553.2
Invest. Tax Credit	(80.7)	-	-	-	(80.7)
Total Oper. Exp.	3,032.5	(0.7)	(2.8)	1.6	3,030.6
Net Operating Revenues	1,307.5	0.7	2.8	1.6	1,312.6
Rate Base	11,296.6	-	-	-	11,296.6
Rate of Return	11.58%	0.01%	0.02%	0.01%	11.62%

(a) Applicant's adjusted estimates from Exhibit 37-B, Page 2, Column (d).

(b) Effect of adjustment to General Office prorated expense which was disposed of at the hearing.

(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.

(d) Effect of staff's adjustment for rate-making purposes of the rental received from employees for company-owned houses.

(e) Staff's adjusted estimates from Exhibit 37-B, Page 2, Column (f).

* Subtotal of expenses exclusive of uncollectibles, local franchise taxes, business license and income tax items.

(red figure)

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(Page 2 of 2)
RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS
BEAR GULCH DISTRICT, TEST YEAR 1980

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effect of Issues			Staff's Adjusted Estimates (e)
		G.O. Exp. Prorate (b)	Ad Val. Txs. For Inc. Txs. (c)	Rental of Co. Houses (d)	
<u>Present Rates</u>					
Operating Revenues	\$ 3,205.6	\$ -	\$ -	\$ 3.2	\$ 3,208.8
Operating Expenses:					
Purchased Water	1,024.7	-	-	-	1,024.7
Purchased Power	144.7	-	-	-	144.7
Purchased Chemicals	4.5	-	-	-	4.5
Payroll-- District	378.4	-	-	-	378.4
Other Oper. & Maint.	233.8	-	-	-	233.8
Other A & G & Misc.	24.1	-	-	-	24.1
Ad Valorem Tax - Dist.	176.5	-	-	-	176.5
Payroll Taxes	25.7	-	-	-	25.7
Depreciation	333.5	-	-	-	333.5
Ad Valorem Tax - G.O.	1.6	-	-	-	1.6
Payroll Taxes - G.O.	7.0	-	-	-	7.0
Other Prorates - G.O.	259.8	(1.5)	-	-	258.3
Subtotal*	2,614.3	(1.5)	-	-	2,612.8
Uncollectibles	5.7	-	-	-	5.7
Local Fr. Tax & Bus.Lic.	25.0	-	-	-	25.0
Inc. Taxes Before ITC	(72.3)	0.8	(2.6)	1.6	(72.5)
Invest. Tax Credit	(67.7)	-	-	-	(67.7)
Total Oper. Exp.	2,505.0	(0.7)	(2.6)	1.6	2,503.3
Net Operating Revenues	700.6	0.7	2.6	1.6	705.5
Rate Base	11,545.4	-	-	-	11,545.4
Rate of Return	6.07%	0.01%	0.02%	0.01%	6.11%
<u>Proposed Rates</u>					
Operating Revenues	\$ 4,551.0	-	-	\$ 3.2	\$ 4,554.2
Operating Expenses:					
Subtotal*	2,614.3	\$ (1.5)	-	-	2,612.8
Uncollectibles	8.1	-	-	-	8.1
Local Fr. Tax & Bus.Lic.	35.5	-	-	-	35.5
Inc. Taxes Before ITC	605.4	0.8	\$(2.6)	1.6	605.2
Invest. Tax Credit	(67.7)	-	-	-	(67.7)
Total Oper. Exp.	3,195.6	(0.7)	(2.6)	1.6	3,193.9
Net Operating Revenues	1,355.4	0.7	2.6	1.6	1,360.3
Rate Base	11,545.4	-	-	-	11,545.4
Rate of Return	11.74%	0.01%	0.02%	0.01%	11.78%

(a) Applicant's adjusted estimates from Exhibit 37-B, Page 3, Column (d).

(b) Effect of adjustment to General Office prorated expense which was disposed of at the hearing.

(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.

(d) Effect of staff's adjustment for rate-making purposes of the rental received from employees for company-owned houses.

(e) Staff's adjusted estimates from Exhibit 37-B, Page 3, Column (f).

* Subtotal of expenses exclusive of uncollectibles, local franchise taxes, business license and income tax items.

(red figure)

Rental of Company Houses

The third issue concerns a staff-proposed adjustment which would impute larger rental revenue than actually received for two houses occupied by applicant's employees at the Bear Gulch Reservoir.

The original construction cost of these houses has long since been fully depreciated. In 1974 applicant reconstructed them at a cost of approximately \$79,000. The staff witness noted that this investment produces \$2,620 in annual depreciation expense and an additional \$1,060 in property tax expense, totaling approximately \$153 per month per house.

Applicant rents these houses to its local manager and general foreman at \$20 per month. These employees have no choice as to whether they will live in these houses or not. They are required by the company to insure that one adult is present on the reservoir site 24 hours a day, 7 days a week. This company rule is intended to meet a requirement of the State Division of Safety of Dams. Applicant contends that the difference between the fair rental value of these homes and the rental actually received is compensation for the security services rendered.

Staff contends that the amount it has imputed (\$153 per month per house) is approximately one-half of the fair market rental value. If we had evidence to support such a finding we could also find that the value of these employees' security services is approximately \$130 per month per family. Staff, however, has not provided any evidence which would support a finding objectively establishing either the value of service or the rental value.

The staff witness did propose a method whereby the company could establish a reasonably objective method of valuing both services and housing; he suggested that the company should put the housing and the attendant security obligation up for bid by any company employee in applicant's peninsula districts, or

in its San Jose facility, which is within reasonable commuting distance. Such a bidding process would produce a market value; even though the number of bidders would be limited, the value might well be reliable enough for ratemaking purposes. Applicant, however, rejected this suggestion. We have concluded that its election to insist that these houses be occupied by specified employees is well within its managerial discretion (Pacific Tel. & Tel. Co. v PUC (1950) 34).

Since applicant is exercising a legitimate prerogative, no adverse inferences can be drawn from its unwillingness to establish value in this manner. We are thus asked to solve a formula containing at least two unknowns, the objective value of the houses and of the required services.

We believe there is a third unknown; for some families these houses would be too small, too remote, or too old-fashioned to be tolerated even with a rental below market value. Other families might find them entirely suitable.

The security obligation presents similar problems. Some families might find the restriction on after-hours freedom intolerable even though shared; for other the obligation would not interfere at all with their customary leisure activities. We do not believe we can adequately determine what the cost should be to consumers until we have determined whether the package of housing obligations, and low rental makes these jobs more or less attractive for the incumbents and for those who may be in line for promotion.

Since the burden of resolving these questions outweighs the maximum value of the adjustment to consumers, no adjustment will be made.

Balancing Account Adjustment

Applicant maintains balancing accounts pursuant to Section 792.5 of the Public Utilities Code, covering changes in its rates which have been authorized from time to time to offset specific changes in costs. By Advice Letter No. 652, applicant filed rate changes designed, among other things, to amortize and return to customers an accumulated net surplus in revenue collections of \$20,000 applicable to the various balancing accounts for this district. This amount is thus appropriately included as a decrease in expenses for 1979, as shown on Table III. The portion of the rates shown in Appendix A which relates this item amounts to \$0.0048 per Ccf in the quantity rates. Inasmuch as this treatment is designed to bring the balancing accounts into balance by the end of 1979, no similar item is needed for 1980 or 1981.

Rate of Return

In the Hermosa-Redondo District decision, supra, we discussed at some length the basis for our findings that rates of return of 10.08, 10.27, and 10.43 percent on rate base and a uniform 13.0 percent on common equity are reasonable for applicant's operations for the period from 1979 through 1981. The same discussion, including consideration of quality of service, applies to applicant's Bear Gulch District and need not be repeated.

Trend in Rate of Return

The Hermosa-Redondo District decision, supra, also discussed the allowance that must be made beyond the 1980 test year for the reduction in rate of return on rate base that would otherwise result from continuing changes in expenses and rate base. We concluded that, absent any unusual conditions in the test-year estimates, the operational attrition allowance underlying the 1981 step increase should be the amount indicated between the adopted test years 1979 and 1980.

In the Bear Gulch District results, there is one such unusual condition which must be recognized in the attrition allowance. The Balancing Account Adjustment previously discussed applies to 1979 only, thus making the apparent trend in rate of return abnormally great between 1979 and 1980. After adjusting for that difference, the appropriate attrition allowance to use in setting step rates for 1981 and 1982 is 0.39 percent in this district. The corresponding recommendations at the hearing had been 0.74 percent by applicant and 0.45 percent by the staff.

Summary of Earnings

The following Table IV is derived from Column (a) of Table III, modified to reflect the use, for income tax calculations, of interest deductions which are consistent for each year with the same cost of debt used in establishing a reasonable rate of return for that year. This modification was discussed in the Hermosa-Redondo District decision, supra. This table shows the recommended summary of earnings at present rates and at the rates proposed herein.

Table IV will provide a basis for review of future advice letter requests for rate increases or decreases to offset changes not reflected either in the test years 1979 and 1980 or in the operational attrition in rate of return on rate base adopted as the basis for the rates recommended herein. The purchased power rate utilized in the composite PG&E 4.937 cents per kWh rate which became effective October 3, 1978. The ad valorem tax rate is the assumed rate of 1.25 percent of estimated "market value" used for assessment purposes, which is the rate estimated to be applicable to the fiscal year 1979-80. The income tax rates are the 9 percent state and 46 percent (with intermediate steps) federal rates.

TABLE IV

RECOMMENDED SUMMARY OF EARNINGSBEAR GULCH DISTRICT, TEST YEARS 1979-1980

(Dollars in Thousands)

	<u>1979</u>	<u>1980</u>
<u>Present Rates</u>		
Operating Revenues	\$ 3,182.9	\$ 3,205.6
Operating Expenses:		
Purchased Water	1,016.6	1,024.7
Purchased Power	143.8	144.7
Purchased Chemicals	4.4	4.5
Payroll - District	353.7	378.4
Other Oper. & Maint.	226.6	233.8
Other A & G. & Misc.	23.3	24.1
Ad Valorem Tax - Dist.	165.8	176.5
Payroll Taxes	24.1	25.7
Depreciation	327.3	333.5
Ad Valorem Tax - G.O.	1.6	1.6
Payroll Taxes - G.O.	6.6	7.0
Other Prorates - G.O.	244.1	259.8
Balancing Account Adjust.	(20.0)	-
Subtotal*	2,517.9	2,614.3
Uncollectibles	5.7	5.7
Local Fr. Tax & Bus. Lic.	24.9	25.0
Inc. Taxes Before ITC	(15.6)	(70.5)
Invest. Tax Credit	(80.7)	(67.7)
Total Oper. Exp.	2,452.2	2,506.8
Net Operating Revenues	730.7	698.8
Rate Base	11,296.6	11,545.4
Rate of Return	6.47%	6.05%
<u>Adopted Rates</u>		
Operating Revenues	\$ 4,021.2	\$ 4,206.0
Operating Expenses:		
Subtotal*	2,517.9	2,614.3
Uncollectibles	7.2	7.5
Local Fr. Tax & Bus. Lic.	31.4	32.8
Inc. Taxes Before ITC	406.7	433.4
Invest. Tax Credit	(80.7)	(67.7)
Total Oper. Exp.	2,882.5	3,020.3
Net Operating Revenues	1,138.7	1,185.7
Rate Base	11,296.6	11,545.4
Rate of Return	10.08%	10.27%
Average Services	15,976	16,063
Sales - KCcf	4,173.6	4,205.1

* Subtotal of expenses exclusive of uncollectibles, local franchise taxes, business license and income tax items.

(red figure)

Rate Spread

The principle to be followed in designing the rates to be authorized for the current series of proceedings were discussed in the Hermosa-Redondo District decision, supra. For 1979, rates for lifeline service in the Bear Gulch District should be increased approximately 6.7 percent, whereas the overall revenue increase is 26.3 percent. For step-rate increases in subsequent years, lifeline rates would be raised by the same percentage as the total revenue increase. Appendices A and B included herewith set forth 1979 rates and step increases in rates for 1980 and 1981.

Other Items

The subject of applicant's water conservation efforts and the staff's recommendations regarding consideration of bi-monthly billing and improvement of pump efficiency were discussed at length in the Hermosa-Redondo District decision.

Wage and Price Guidelines

When this decision was submitted, the Wage and Price Council had not issued detailed regulations to adopt its general guidelines for applications to regulated water utilities. Since the water utility industry is so fundamentally different from either manufacturing or service industries, any attempt to apply the guidelines directly involves more art than science. Under these circumstances, we can only assert our belief that this increase, being the minimum which could be justified under California law, complies with the spirit if not the letter of the guidelines.

It is clear that the wage increases granted by applicant to its employees and executives fall well within guideline levels.

Findings of Fact

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 1979 and 1980 and an annual fixed-rate decline of 0.39 percent in rate of return into 1981 due to operational attrition reasonably indicate the results of applicant's operations for the near future.
4. Rate of return of 10.08, 10.27, and 10.43 percent, respectively, on applicant's rate base for 1979, 1980, and 1981 is reasonable, and will maintain a return on common equity of 13.00 percent until the end of 1981. This will require an increase of \$838,300, or 26.3 percent, in annual revenues for 1979; a further increase of \$156,400, or 3.9 percent, for 1980; and a further increase of \$93,500, or 2.3 percent, for 1981.
5. The rate spread agreed to by applicant and staff, as hereinbefore discussed, is reasonable.
6. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.
7. The offset increases authorized in Appendix B should be appropriately modified in the event the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1979, and/or September 30, 1980, exceeds the lower of the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision or ~~13.0~~ percent.

10.27

Conclusions of Law

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

2. Because of the limited number of issues involved in this proceeding, the fact that applicant and the staff are the only active parties to this proceeding, and the fact that the returns found reasonable herein are based upon the full-year 1979 effect of the rate increase, the following order should be effective on the date of signature.

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 Bear Gulch 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 after November 15, 1979, applicant is authorized to file step rates incorporating the appropriate step-rate 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 in the event that the Bear Gulch District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1979, exceeds 10.08 percent. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1980, or thirty days after the filing of the step rates, whichever comes later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1980, applicant is authorized to file step rates incorporating the appropriate step-rate 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 in the event that the Bear Gulch District rate of return on rate base adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1980, exceeds the lower of 10.27 percent or the rate of return found reasonable for 1980 in a final subsequent decision involving one of applicant's other districts. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1981 or thirty days after the filing of the step rates, whichever comes later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day
of JUNE, 1979.

John E. Guyer
President
Herbert L. Sturgeon
Richard D. Howell
Clair T. Doolittle
Donald W. Smith
Commissioners

APPENDIX A

Schedule No. BG-1

Bear Gulch Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>		
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 4.05	(I)	
For 3/4-inch meter	6.25	|	
For 1-inch meter	8.40		
For 1 1/2-inch meter	12.00		
For 2-inch meter	15.00		
For 3-inch meter	29.00		
For 4-inch meter	39.00		
For 6-inch meter	64.00		
For 8-inch meter	95.00		
For 10-inch meter	118.00		(I)
Quantity Rates:			
For the first 300 cu.ft., per 100 cu.ft. ....	.532	(I)(T)
For all over 300 cu.ft., per 100 cu.ft. ....	.720	(I)(T)

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

APPENDIX B

Bear Gulch Tariff Area

AUTHORIZED INCREASE IN RATES

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

	<u>Rates to be Effective</u>	
	<u>1-1-80</u>	<u>1-1-81</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$.15	\$.10
For 3/4-inch meter	.45	.30
For 1-inch meter	.60	.50
For 1 1/2-inch meter	1.00	1.00
For 2-inch meter	1.00	1.00
For 3-inch meter	3.00	1.00
For 4-inch meter	4.00	1.00
For 6-inch meter	5.00	3.00
For 8-inch meter	7.00	4.00
For 10-inch meter	9.00	5.00
Quantity Rates:		
For first 300 cu.ft., per 100 cu.ft.	0.020	0.010
For all over 300 cu.ft., per 100 cu.ft.	.023	.011