

Decision No. 90492 JUL 3 1979

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)
South San Francisco District.)

Application No. 58096
(Filed May 25, 1978)

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 \$476,000 or 27 percent.^{1/} The Commission set public hearing on a consolidated record including all six districts proceedings.^{2/}

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/ This figure was based on rates then applicable. Before submission of the case, applicant reduced rates by approximately 10 percent. Other comparisons in this decision are based on the reduced rates.

2/ 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 its brief. 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. The staff brief was filed on March 16, 1979.

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 a financial expert and six engineers.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its South San Francisco District includes the presently improved area of the incorporated city of South San Francisco in San Mateo County. A substantial portion of the terrain is relatively hilly, with elevations ranging from 35 feet to more than 300 feet above sea level. The population within the area served is estimated at 45,100.

Water for the South San Francisco District is obtained from two sources: ten metered connections from the San Francisco Water Department (SFWD) and seven company-owned wells located in a well field within the service area. The entire production from the well field is pumped into a collecting tank, at which point purchased water from one of the SFWD connections is also impounded for handling

by booster pumps to distribution and storage in the low-level portion of the system. Eight separate pressure zones are required to serve the area, due to the variations in elevations. 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 120 miles of mains, ranging in size up to 18 inches, and approximately 6.8 million gallons of storage capacity. There are about 11,900 metered services, 280 private fire protection services, and 950 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. Applicant claims that customer complaints received at applicant's district office were quickly resolved. The absence of any customers 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 and had also proposed to modify its rates for public fire hydrant service to implement the provisions of Section VIII.4 ("Fire Hydrant Agreements") of General Order No. 103. That section provides for agreements between the water utility and fire protection agencies. The city of South San Francisco, however, has decided not to avail itself of the provisions of the General Order, so applicant now proposes no change in its present fire hydrant tariff schedules.

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

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TABLE I
SOUTH SAN FRANCISCO 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	\$ 2.84	\$ 3.25	\$ 3.50	\$ 3.90	\$ 3.00	\$ 3.20	\$ 3.30
For 3/4-inch meter	3.13	4.80	5.20	5.70	4.80	5.30	5.50
For 1-inch meter	4.26	6.50	7.10	7.90	6.50	7.20	7.50
For 1-1/2-inch meter	5.96	9.10	9.80	10.90	9.00	10.00	11.00
For 2-inch meter	7.66	11.80	12.80	14.00	12.00	13.00	14.00
For 3-inch meter	14.19	22.00	24.00	26.00	22.00	24.00	25.00
For 4-inch meter	19.30	30.00	32.00	35.00	30.00	33.00	35.00
For 6-inch meter	32.07	49.00	53.00	59.00	49.00	54.00	58.00
For 8-inch meter	47.68	73.00	79.00	87.00	73.00	80.00	85.00
For 10-inch meter	59.03	91.00	98.00	108.00	91.00	100.00	106.00
Quantity Rates:							
For the first 300 cu.ft., per 100 cu.ft.	0.328	0.390	0.402	0.412	0.343	0.366	0.378
For the next 200 cu.ft., per 100 cu.ft. ....	.328	.521	.536	.549	.478	.513	.531
For the next 49,500 cu.ft., per 100 cu.ft. ....	.391	.492	.523	.536	.478	.513	.531
For all over 50,000 cu.ft., per 100 cu.ft. ....	.366	.436	.460	.466	.438	.468	.482

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 2210-W, effective January 11, 1979.

Set forth in applicant's Exhibit 36-S, 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 16,000 cubic feet of water per year, or 13 Ccf (hundreds of cubic feet) per month. The corresponding use for an average industrial user in this district is 720,000 cubic feet of water per year or 600 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	\$ 7.61	\$ 7.61	\$ 7.61
Rates Proposed at the Hearing:			
Monthly Charge	9.40	9.96	10.52
Increase Over Present Rates:			
Amount	1.79	2.35	2.91
Percent	23.5%	30.9%	38.2%
Adopted Rates:			
Monthly Charge	\$ 8.81	\$ 9.43	\$ 9.74
Increase Over Present Rates:			
Amount	1.20	1.82	2.13
Percent	15.8%	23.9%	28.0%
<u>Average Industrial Customer</u>			
Present Rates:			
Monthly Charge	\$251.09	\$251.09	\$251.09
Rates Proposed at the Hearing:			
Monthly Charge	319.35	339.16	349.25
Increase Over Present Rates:			
Amount	68.26	88.07	98.16
Percent	27.2%	35.1%	39.1%
Adopted Rates Proposed			
Monthly Charge	\$312.40	\$335.86	\$348.24
Increase Over Present Rates:			
Amount	61.31	84.77	97.15
Percent	24.4%	33.8%	38.7%

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 36-S, 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. Between then and the completion date of the staff's exhibit, several changes took place in rates for such things as purchased power and ad valorem taxes, all of which have been reflected in offset changes in applicant's rates. Also, additional data became available as to actual numbers of customers, plant balances, and other recorded data.

Applicant kept the Commission staff advised of changes and new data so that those could be reflected in the staff's estimates. When the staff exhibits were distributed, applicant adopted those items where the estimates were identical and also others where the differences were insignificant. Applicant does not entirely agree with all of the staff's adjustments and estimates of future additions and betterments in plant but, for the purpose of expediting this proceeding, does not take issue with the staff in regard to those items. That leaves only three 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 Decision No. 90425 in Application No. 58093 involving applicant's Hermosa-Redondo District.

TABLE III
(Page 1 of 2)

RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS

SOUTH SAN FRANCISCO DISTRICT, TEST YEAR 1979

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effects of Issues			Staff's Adjusted Estimates (e)
		G.O. Exp. Prorates (b)	Ad Val. Txs For Inc. Txs. (c)	Com'l. Sales (d)	
<u>Present Rates</u>					
Operating Revenues	\$1,579.8	\$ -	\$ -	\$48.3	\$1,628.1
Operating Expenses:					
Purchased Water	666.1	-	-	31.8	697.9
Purchased Power	75.3	-	-	3.3	78.6
Purchased Chemicals	0.4	-	-	-	0.4
Payroll - District	196.2	-	-	-	196.2
Other Oper. & Maint.	110.8	-	-	-	110.8
Other A & G & Misc.	14.4	-	-	-	14.4
Ad Valorem Tax - Dist.	59.3	-	-	-	59.3
Business Licenses	2.0	-	-	-	2.0
Payroll Taxes	13.4	-	-	-	13.4
Depreciation	126.0	-	-	-	126.0
Ad Valorem Tax - G.O.	0.9	-	-	-	0.9
Payroll Taxes - G.O.	3.8	-	-	-	3.8
Other Prorates - G.O.	141.1	(0.9)	-	-	140.2
Balancing Account Adjust.	(50.0)	-	-	-	(50.0)
Subtotal*	1,359.7	(0.9)	-	35.1	1,393.9
Uncollectibles	2.4	-	-	0.1	2.5
Inc. Taxes Before ITC	(16.2)	0.4	(1.3)	6.7	(16.4)
Invest. Tax Credit	(21.9)	-	-	-	(21.9)
Total Oper. Exp.	1,324.0	(0.5)	(1.3)	41.9	1,364.1
Net Oper. Revenues	255.8	0.5	1.3	6.4	264.0
Rate Base	3,910.6	-	-	-	3,910.6
Rate of Return	6.54%	0.01%	0.04%	0.16%	6.75%
<u>Proposed Rates</u>					
Operating Revenues	\$1,953.7	-	-	\$61.2	\$2,014.9
Operating Expenses:					
Subtotal*	1,359.7	\$(0.9)	-	35.1	1,393.9
Uncollectibles	3.0	-	-	0.1	3.1
Inc. Taxes Before ITC	173.6	0.5	\$(1.3)	13.2	186.0
Invest. Tax Credit	(21.9)	-	-	-	(21.9)
Total Oper. Exp.	1,514.4	(0.4)	(1.3)	48.4	1,561.1
Net Oper. Revenues	439.3	0.4	1.3	12.8	453.8
Rate Base	3,910.6	-	-	-	3,910.6
Rate of Return	11.23%	0.01%	0.04%	0.32%	11.60%

(a) Applicant's adjusted estimates from Exhibit 36-S, Page 2, Column (d).

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

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

(d) Effect of difference between the Applicant's adjusted estimate and staff's estimate of the residual conservation effect on sales per commercial customers.

(e) Staff's adjusted estimates from Exhibit 36-S, Page 2, Column (e).

* Subtotal of expenses exclusive of uncollectibles and income tax items.

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TABLE III
(Page 2 of 2)

RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS

SOUTH SAN FRANCISCO DISTRICT, FISCAL YEAR 1980

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effects of Issues			Staff's Adjusted Estimates (e)
		G.O. Exp. Prorates (b)	Ad Val. Txs For Inc. Txs. (c)	Com'l. Sales (d)	
<u>Present Rates</u>					
Operating Revenues	\$1,583.5	\$ -	\$ -	\$48.5	\$1,632.0
Operating Expenses:					
Purchased Water	666.8	-	-	31.9	698.7
Purchased Power	75.4	-	-	3.3	78.7
Purchased Chemicals	0.4	-	-	-	0.4
Payroll - District	210.0	-	-	-	210.0
Other Oper. & Maint.	115.8	-	-	-	115.8
Other A & C & Misc.	14.8	-	-	-	14.8
Ad Valorem Tax - Dist.	65.5	-	-	-	65.5
Business Licenses	2.0	-	-	-	2.0
Payroll Taxes	14.2	-	-	-	14.2
Depreciation	133.4	-	-	-	133.4
Ad Valorem Tax - G.O.	1.0	-	-	-	1.0
Payroll Taxes - G.O.	4.1	-	-	-	4.1
Other Prorates - G.O.	149.9	(0.9)	-	-	149.0
Subtotal*	1,453.3	(0.9)	-	35.2	1,487.6
Uncollectibles	2.4	-	-	0.1	2.5
Inc. Taxes Before ITC	(65.3)	0.4	(1.8)	6.7	(60.0)
Invest. Tax Credit	(18.5)	-	-	-	(18.5)
Total Oper. Exp.	1,371.9	(0.5)	(1.8)	42.0	1,411.6
Net Oper. Revenues	211.6	0.5	1.8	6.5	220.4
Rate Base	4,080.3	-	-	-	4,080.3
Rate of Return	5.19%	0.01%	0.04%	0.16%	5.40%
<u>Proposed Rates</u>					
Operating Revenues	\$2,074.4	-	-	\$65.2	\$2,139.6
Operating Expenses:					
Subtotal*	1,453.3	\$(0.9)	-	35.2	1,487.6
Uncollectibles	3.2	-	-	0.1	3.3
Inc. Taxes Before ITC	184.0	0.4	\$(1.8)	13.2	197.8
Invest. Tax Credit	(18.5)	-	-	-	(18.5)
Total Oper. Exp.	1,622.0	(0.5)	(1.8)	50.5	1,670.2
Net Oper. Revenues	452.4	0.5	1.8	14.7	469.4
Rate Base	4,080.3	-	-	-	4,080.3
Rate of Return	11.09%	0.01%	0.04%	0.36%	11.50%

(a) Applicant's adjusted estimates from Exhibit 36-S, Page 3, Column (d).

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

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

(d) Effect of difference between the Applicant's adjusted estimate and staff's estimate of the residual conservation effect on sales per commercial customers.

(e) Staff's adjusted estimates from Exhibit 36-S, Page 3, Column (f).

* Subtotal of expenses exclusive of uncollectibles and income tax items.

(red figure)

Operating Revenues-Commercial Sales

Both applicant and the staff used the "Modified Bean" method, as described in the staff manual, Standard Practice U-25, to estimate commercial metered sales before adjustment for residual conservation. Neither staff nor applicant used 1977 recorded data in the regression analysis due to the abnormal conservation effect experienced during that drought year. The methods used by both applicant and the staff were generally consistent with guidelines established by the staff and the California Water Association's Consumption-Revenue Estimation Committee but differed in some relatively minor details. Applicant did not dispute staff's estimated normalized annual consumption per commercial customer of 193.6 Ccf before adjustment for conservation for both 1979 and 1980 test years.

Applicant and staff agree that there will be some residual conservation even though the drought is over. To estimate this effect, applicant originally used a judgmental percentage of pre-drought normal customer usage. Applicant originally estimated the long-term residual conservation effect to be 10 percent below the pre-drought "normal" for all classes of customers. Using later data, the staff estimated the residual conservation effect to be approximately 14 percent below the pre-drought "normal" for commercial and 15 percent below for public authority customers.

Using the same updated information utilized by the staff to arrive at the residual conservation effect, applicant took no issue with the staff's estimate for public authority customers. Applicant did, however, disagree with the staff's estimate of post-drought usage by commercial (i.e., residential and industrial) customers.

In deriving the estimated post-drought conservation, the staff:

A. Adjusted the normalized pre-drought sales applicable to the years 1977 and 1978 to reflect what those sales should be under the actual weather conditions which prevailed.

B. Spread the 1977 and 1978 annual consumptions obtained in "A", above, to months, in proportion to the monthly distribution percentages experienced historically.

C. Compared actual monthly consumption (not adjusted for deviation from normal weather) with the adjusted monthly consumptions obtained in "B" above, and assumed that the differences represented the percentage of water conserved on a monthly basis. The greatest apparent 12-month conservation period was from May 1977 through April 1978. During this drought period, commercial customers conserved approximately 39 percent of what their pre-drought usage would have been.

D. Derived post-drought residual conservation by comparing the apparent percentage conserved from May 1978 through October 1978 with the corresponding drought months in 1977. This indicated that the post-drought conservation was about half of the conservation achieved during the drought.

Thus far the staff's methodology indicates a post-drought residual conservation of 19.5 percent; applicant is willing to accept that answer. Although abnormal weather in any of the months would distort the indicated amount of conservation for that month, applicant considered that such aberrations would tend to average out in looking at the overall results for the May - October period referred to in "D", above. The staff, however, took one further step.

The final step in the staff study was to consider the indicated monthly conservation percentages and the resultant apparent downward trend in conservation percentage. The staff reduced the average conservation of 19.5 percent down to a trended

estimate of 14 percent. The record shows that September of 1978 was abnormally warm. This would increase consumption for that month and reduce the apparent conservation at the end of the period studied by the staff, causing an artificial downward slope in conservation percentage. We believe that the staff consumption estimates give undue weight to a single, perhaps atypical, month. We will adopt the 19.5 percent figure as reasonable.

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 \$50,000 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 to this item, amounts to \$0.0173 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, the Commission discussed at some length the basis for its recommended 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 South San Francisco District and need not be repeated herein.

Trend in Rate of Return

The Hermosa-Redondo District decision 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 should be the amount indicated between the adopted test years 1979 and 1980.

In the South San Francisco 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 is 0.83 percent in this district. The corresponding recommendations at the hearing had been 1.14 percent by applicant and 0.60 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. This table shows that 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 water rate

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utilized is the composite SFWD 27.63 cents per Ccf rate which became effective March 1, 1978. The purchased power rate utilized is the composite PG&E 3.999 cents per kWh rate which became effective October 3, 1978. The ad valorem tax rate is the assumed rate of 1.25 percent of the dollars 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
ADOPTED SUMMARY OF EARNINGS
SOUTH SAN FRANCISCO DISTRICT, TEST YEARS 1979-1980
(Dollars in Thousands)

	<u>1979</u>	<u>1980</u>
<u>Present Rates</u>		
Operating Revenues	\$ 1,579.8	\$ 1,583.5
Operating Expenses:		
Purchased Water	666.1	666.8
Purchased Power	75.3	75.4
Purchased Chemicals	0.4	0.4
Payroll - District	196.2	210.0
Other Oper. & Maint.	110.8	115.8
Other A & G & Misc.	14.4	14.8
Ad Valorem Tax - Dist.	59.3	65.5
Business Licenses	2.0	2.0
Payroll Taxes	13.4	14.2
Depreciation	126.0	133.4
Ad Valorem Tax - G.O.	0.9	1.0
Payroll Taxes - G.O.	3.8	4.1
Other Prorates - G.O.	141.1	149.9
Balancing Account Adjust.	(50.0)	-
Subtotal*	1,359.7	1,453.3
Uncollectibles	2.4	2.4
Inc. Taxes Before ITC	(11.5)	(64.7)
Investment Tax Credit	(21.9)	(18.5)
Total Operating Expenses	1,328.7	1,372.5
Net Operating Revenues	251.1	211.0
Rate Base	3,910.6	4,080.3
Rate of Return	6.42%	5.17%
<u>Authorized Rates</u>		
Operating Revenue	\$ 1,871.5	\$ 2,007.4
Operating Expenses:		
Subtotal*	1,359.7	1,453.3
Uncollectibles	2.8	3.1
Income Taxes Before ITC	136.7	150.5
Investment Tax Credit	(21.9)	(18.5)
Total Operating Expenses	1,477.3	1,588.4
Net Operating Revenue	394.2	419.0
Rate Base	3,910.7	4,080.3
Rate of Return	10.08%	10.27%
Average Services	12,034	12,087
Sales - KCcf	2,894.3	2,896.7

* Subtotal of expenses exclusive of uncollectibles and income tax items.

(red figure)

Rate Spread

The principles to be followed in designing the rates to be authorized for the current series of proceedings were discussed in the previously mentioned Hermosa-Redondo District decision. For 1979, rates for lifeline service in the South San Francisco District should be increased approximately 5.5 percent, whereas the overall revenue increase recommendation is 18.5 percent. For step-rate increases in subsequent years, lifeline rates would be raised by the same percentage as is the total revenue increase. Appendices A and B included herewith set forth applicant's recommended 1979 rates and recommended 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 bimonthly billing and improvement of pump efficiencies 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 adapt its general guidelines for application 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 0.83 percent in rate of return into 1981 due to operational attrition reasonably indicate the results of applicant's operations for the near future.

4. Rates of return of 10.08, 10.27, and 10.43 percent, respectively, on applicant's rate base for 1979, 1980, and 1981 are reasonable. The related return on common equity each year is 13.0 percent. This will require an increase ^{over existing rates} of \$291,700 (18.5 percent) in annual revenues for 1979, a further increase of \$131,800 (7.0 percent) for 1980; a further increase of \$68,900 (3.4 percent) for 1981. *SS*

5. The type of 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, September 30, 1980, and/or September 30, 1981 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 those found reasonable herein.

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 South San Francisco 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 South San Francisco District rate of return on rate base, adjusted to reflect the rates than in effect and normal ratemaking adjustments for the twelve months ended September 30, 1979, exceeds the lower of 10.08 percent or the rate of return found reasonable for 1979 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, 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 South San Francisco 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 3rd day of JULY, 1979.

John E. Guyon
President
Joseph L. Stegman
Robert N. Truvello
William L. Pedrick
Samuel M. Jensen
Commissioners

APPENDIX A

Schedule No. SS-1

South San Francisco Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

South San Francisco and vicinity, San Mateo County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.00	(I)
For 3/4-inch meter	4.80	|
For 1-inch meter	6.50	|
For 1 1/2-inch meter	9.00	|
For 2-inch meter	12.00	|
For 3-inch meter	22.00	|
For 4-inch meter	30.00	|
For 6-inch meter	49.00	|
For 8-inch meter	73.00	|
For 10-inch meter	91.00	(I)
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft. ....	.343	(I) (T)
For the next 49,700 cu.ft., per 100 cu.ft. ....	.478	(I) (T)
For all over 50,000 cu.ft., per 100 cu.ft. ....	.438	(I)

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

South San Francisco 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	\$.20	\$.15
For 3/4-inch meter	.50	.30
For 1-inch meter	.70	.40
For 1½-inch meter	1.00	1.00
For 2-inch meter	1.00	1.00
For 3-inch meter	2.00	1.00
For 4-inch meter	3.00	2.00
For 6-inch meter	5.00	4.00
For 8-inch meter	7.00	5.00
For 10-inch meter	9.00	6.00
Quantity Rates:		
For first 300 cu.ft., per 100 cu.ft.	.023	.013
For next 49,700 cu.ft., per 100 cu.ft.	.035	.020
For all over 50,000 cu.ft., per 100 cu.ft.	.030	.017