

ORIGINAL

Decision No. 91120 DEC 18 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DEL ESTE WATER COMPANY, a)
corporation, for an order)
authorizing it to increase rates)
charged for water service.)

Application No. 58184
(Filed June 28, 1978;
amended December 14, 1978)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for applicant.
William C. Bricca, Attorney at Law, for the
Commission staff.

F I N A L O P I N I O N

Introduction

Del Este Water Company (Del Este) applies to increase its rates for water service. As originally filed, the application requested a total increase of \$308,700 (21.4 percent) for test year 1978, \$59,800 (3.3 percent) for test year 1979, and \$89,700 (4.7 percent) for test year 1980.

In October of 1978 Del Este notified the Administrative Law Judge (ALJ) that it was ready for hearing on approximately ten days' notice, but the staff informed the ALJ that it could not be ready until April of 1979 at the earliest. Del Este therefore filed a substantial amendment to its application on December 14, 1978 requesting interim relief on an interim rate of return on rate base of 8.9 percent. Such relief was granted in Decision No. 89959 dated February 14, 1979. The interim rates are still in effect.

In this decision we award rate relief of \$103,400 for 1980 with allowance for a step increase for 1981, based on an adopted rate of return on rate base of 11.40 percent producing a return on common equity of 13.0 percent.

Del Este is a wholly owned subsidiary of Beard Land and Investment Company (Beard). The company employs 29 persons in management, operating, maintenance, and clerical positions. Outside services are employed for engineering, auditing, tax accounting, and legal services. The company's administrative and operational facilities are located in Modesto.

Del Este provides water service for residential, commercial, industrial, and fire suppression purposes. Water for agricultural use within Del Este's service areas is furnished by privately owned wells or irrigation districts.

Seven systems are operated by the company. They are unconnected to each other, although they are not radically different from one another. Water is furnished by 65 wells located in the service areas. In System 2, the company has recently purchased water from the city of Modesto (see discussion elsewhere). Telemetering of the distribution occurs at 30 strategically located points over leased telephone lines to recording pressure gauges installed in the company office. (See Exhibit 1, Chapter 1, the company report, for a further description of the system.)

Del Este's last general rate proceeding was Application No. 55202 filed September 25, 1974, which culminated in Decision No. 85335 dated January 13, 1976. Several advice letters authorizing minor rate relief were accepted for filing since that date and prior to our interim decision in this present application.

Public hearing was held before ALJ Donald C. Meaney in San Francisco on June 4 and June 5, 1979, and the matter submitted at the conclusion of the hearing.

Rate of Return

In the interim decision in this proceeding, we set temporary rates which were estimated to produce a rate of return of approximately 8.9 percent. The rate of return evidence was not considered in

detail in that decision. In this application Del Este seeks a 13.56 percent return on equity and an 11.49 percent return on rate base.

Richard C. Bratz, a certified public accountant and Del Este's assistant treasurer, testified to the current financial condition of the company. In his opinion the only current means of obtaining additional debt capital is a \$300,000 to \$400,000 line of credit negotiated with Wells Fargo Bank. Other short-term financing sources are refusing to lend because of the usury law. By the end of 1980, Mr. Bratz expects to use \$350,000 of this amount. Long-term debt has been financed through indentures with Pacific Mutual Insurance Company. The indenture provides that Del Este will not encumber itself with additional long-term debt. (These indentures were approved by the Commission.)

The witness stated that in his opinion Del Este should not seek additional equity financing because of an already high equity ratio and because this would be more expensive to the ratepayers. He also considers that a Del Este stock issue at this time would not be an attractive investment. (In 1969 Del Este was recapitalized, with the preferred stock converted to common; since then the common equity ratio has been about 58 percent.)

The witness emphasized the need for rate relief in order to assist in obtaining financing.

Marvin Winer of the Utility Management Division of Brown and Caldwell, Inc. testified in support of Del Este's recommendation. (See, generally, Chapter 13 of Exhibit 1.) His testimony may very briefly be described as follows.

1. The "riskless" rate of return (i.e., for high grade corporate bonds) is now about 8.4 percent; a rate of return for Del Este must be sufficiently higher to account for the risk to attract capital.

2. Del Este, since 1968, has experienced considerable fluctuation in its realized rate of return since 1968. Except for a brief period in 1971, Del Este's actual rate of return has been below the authorized return. (See graph and text, Exhibit 1, Chapter 13, page 11.)
3. Necessary capital additions demonstrate the requirement for \$150,000 in new long-term debt to retire existing debt. (At the time the witness performed his calculations, he estimated that funds could be obtained at one point over the (then) prime rate of 9.0 percent. (Exhibit 1, Chapter 13, page 2.)
4. Comparison of Del Este with certain large companies producing certain types of consumer goods with a relatively constant and established demand demonstrates that when compared with them Del Este would be the least desirable investment. (Exhibit 1, Table 13-4.)
5. Del Este compares poorly to a list of 24 utilities in Moody's, based on the 1968-1977 earnings as a percent of book value, and when measured by statistical standards designed to demonstrate risk factors ("standard deviation" and "semi-standard deviation"). (See Exhibit 1, Table 13-6 and accompanying text.)
6. Utility common stock offerings in May 1978 show the cost of capital for certain well-established utilities to average 12.98 percent.
7. A comparison between return on book value among selected seasoned companies and Del Este shows that Del Este is the least desirable investment based on book value return and on risk factors.

The above analysis, in the opinion of the witness, means that Del Este should be entitled to a return on equity of approximately 13.56 percent.

Mr. Winer then computed the return on rate base and found that for Del Este a return on equity of 13.56 percent corresponded to the following (see Exhibit 1, Chapter 13, pages 13-8 to 13-11):

1978 11.22 percent
 1979 11.49 percent
 1980 11.44 percent

Staff witness Dana T. Gardner recommended a test year rate of return (1979) of 11.10 percent equating to a return on common equity of 12.45 percent. In addition to differences in the analysis of investment and risk factors, the recommendation is based on the use of a test year capital structure based on staff projections which used recorded data as of December 31, 1978 (rather than such data as of one year earlier, which the company employed). The staff also calculated the effective cost of long-term debt slightly higher than the company. The following tables compare Del Este's request with the staff's recommendation:

Del Este Requested Rate of Return

<u>Component</u>	<u>Amount</u>	<u>Capitalization Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$1,338,600	50.47%	9.46%	4.77%
Common Stock Equity	<u>1,313,500</u>	<u>49.53</u>	13.56	<u>6.72</u>
Total	\$2,652,100	100.00%		11.49%

Staff Recommended Rate of Return

<u>Component</u>	<u>Amount</u>	<u>Capitalization Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$1,338,600	45.83%	9.52%	4.36%
Common Stock Equity	<u>1,582,400</u>	<u>54.17</u>	12.45	<u>6.74</u>
Total	\$2,921,000	100.00%		11.10%
Difference				<u>0.39%</u>

Based on the above tables and the Operations Division's average rate base estimate, the spread in rate of return represents a difference in revenue requirement of \$20,913. (Exhibit 7, page 2.) The staff also calculated the effective cost of long-term debt slightly higher than Del Este.

The staff exhibit points out that all 100 shares of Del Este's outstanding common stock are owned by Beard, a family corporation. During the 1969-1978 period, annual dividends have averaged \$33,340, a mean payout ratio of about 40 percent, although no dividends were declared in 1975. In the same period common stock book value grew approximately 50 percent, indicating that substantial earnings were retained in the business. For this period, Del Este has maintained a consistently high equity ratio, averaging 55.3 percent of total capitalization.

The staff exhibit acknowledges the upward trend on interest rates, although stressing that the rate is cyclical. The staff's exhibit concurs in principle with the company that the level of the prime rate and other interest rate levels have a major effect on Del Este's ability to obtain financing.

Data presented in the staff exhibit shows that Del Este's return on average common equity has been below the average of the comparative group (due in part to Del Este's higher than average equity ratio) and that the return on Del Este's total capital was below average for regional water utilities but above the California average. Times-interest coverage was below the 1973-1977 average of all utilities in the groups.

The preceding summary does not include all of the factors relied upon by either Del Este or the staff in arriving at their respective recommendations. Comparative data are only one facet of the material presented. General economic conditions were also considered by Del Este and the staff. We have relied upon all of the data presented and understand that our responsibility is to the customer as well as the shareholder.

We are of the opinion that a proper return on equity for Del Este, considering all factors including current economic conditions, is 13.00 percent, which (based upon the Operations Division's rate base calculations) produces a return on rate base of 11.40 percent.

While the prime rate is cyclical, it is currently at 14 percent and does not show signs of returning to the lower end of the cycle that was prevalent when the rate of return exhibits were prepared in this case. In other words, while acknowledging the prime rate's cyclic behavior, the cycle can be demonstrated to be higher than that anticipated by the rate of return witnesses.

We assign less weight than Del Este to its comparisons between itself and manufacturing companies with a relatively stable demand since even with such products there is, in our opinion, some amount of flexibility of demand based on economic conditions which does not exist for water. However, Del Este's comparisons along this line demonstrate the comparative unfavorability of Del Este and similar companies as an investment in today's money market. Furthermore, data furnished by the staff which compares Del Este to other regulated water companies, plus current economic trends (particularly in regard to debt capital) convince us that our adopted rate of return is the minimum necessary for this company's financial health for the time we can expect the rates set in this proceeding to be in effect.

Results of Operation

Because many of the differences between the staff and Del Este were minor or were based simply on the fact that later information was available to the staff, Del Este accepted most of the staff adjustments. For comparison purposes, the results of operation table which follows shows the company's original estimates before accepting the staff adjustments.

DEL ESTE WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 1980

Item	At Utility Proposed Rates	At Staff Proposed Rates	At Adopted Rates
(Dollars in Thousands)			
Operating Revenue	\$1,974.3	\$1,874.6	\$1,852.5
<u>Operating Expenses</u>			
Purchased Power	245.9	265.1	226.0 ^{1/}
Purchased Water	0.3	15.8	15.8
Payroll	455.1	446.9	446.9
Other Operations & Maintenance	183.2	191.2	191.2
Other Administrative & General	284.3	274.4	274.4
Ad Valorem Tax	83.2	39.4	39.4
Payroll Taxes	32.4	29.7	29.7
Depreciation	159.1	150.2	150.2
Subtotal - Expenses	1,443.5	1,412.7	1,373.6
Uncollectibles	7.2	6.8	6.7
Franchise & Business Tax	10.8	10.2	10.1
California Corporation Franchise Tax	32.8	24.8	26.3
Federal Income Tax	145.6	111.4	118.7
Total Expenses	1,639.9	1,565.9	1,535.4
Net Operating Revenue	334.4	308.7	317.1
Rate Base	2,910.8	2,781.5	2,781.5
Rate of Return	11.49%	11.10%	11.40%
Return on Equity	13.56%	12.45%	13.00%

^{1/} Purchased power at a rate effective March 1979.

Water Consumption and
Operating Revenues

The original utility estimate exceeded the staff's estimate by \$3,000 for 1980 based on present rates and \$4,500 for 1980 based on proposed rates. Differences are traceable to the staff's use of the "modified Bean method" for normalizing consumption, a staff estimate of "residual" (post-drought) conservation of 5 percent for 1979-1980 and estimates of usage for large users. ✓

Del Este has two large public customers, the city of Modesto and the Modesto Housing Authority. The staff's estimate included 1978 recorded data, showing sales which were larger than the company's projections.

Del Este accepted the staff's adjustments, which we find reasonable.

Operation and Maintenance Expenses

Del Este's estimate exceeded the staff's by \$51,800. The differences are traceable to three areas: salaries, purchased water, and purchased power.

Salaries. This is one of the few remaining differences between Del Este and the staff. The company's results include a 10 percent salary increase for management employees, actually effective January 1, 1979. (The remainder of payroll expense was increased at 7 percent.) Del Este recognizes that federal guidelines restrict salary increases to 7 percent per year and that this Commission has followed the guidelines. Del Este argues, however, that (1) the actual annual dollar total will only equal \$4,085 compared to total annual compensation of \$565,481; (2) the 10 percent wage increase was contemplated before the October 25, 1978 deadline set by the guidelines; and (3) it qualifies under the guidelines for an exclusion because it was a "tandem" pay rate change adopted in an associated company and part of a national union agreement.

We agree with the staff interpretation of the "tandem" pay increase requirements and believe that Del Este has failed to demonstrate that this increase is covered by such provisions.

Regarding the October 25, 1978 deadline, the word used in the guidelines is "signed" not "contemplated". (See Exhibit 9, page 8 of the Wage and Price Standards, which states that pay increases are exempted if they are the result of "agreements signed prior to October 25, 1978....")

It should be noted that the staff analysis allows for wage increases of 7 percent per annum, not a total of 7 percent over the next three years or for the life of the wage contract. This is adequate. The staff recommendation is adopted.

Purchased Water. In System 2 a number of wells were withdrawn from service, and Del Este contracted with the city of Modesto to purchase water until 1981. The later-prepared staff report included the increase in purchased water costs and the corresponding reduction in pumped water production. The staff estimate is adopted.

Purchased Power. The staff used more recent power costs. The company accepted the staff estimate, which is adopted.

Certain other miscellaneous adjustments, eventually accepted by Del Este, are too small to require separate discussion.

Administrative and General Expenses

The company's 1980 estimate exceeded the staff's by \$27,300. The staff made a different allocation of the salaries of four employees of Beard whose work involves more than one company. The staff also had later data regarding insurance costs. The company accepted the adjustments.

We agree with the staff that in its annual report to the Commission Del Este should be required to show the three-factor allocation method concerning the administrative and general salaries of officers involved with Del Este and the other nonregulated affiliates.

Taxes Other Than Income Taxes

The staff's estimate is \$46,500 lower than the company's, mostly traceable to the inclusion of the effect of Proposition 13. The company accepted the staff's figures.

Income Taxes

Both the staff and Del Este calculated income taxes on a flow-through basis. Minor differences between Del Este and the staff are traceable largely to the staff's use of the reduced corporate tax rates effective January 1, 1979 and differences in estimating tax depreciation. Staff calculations passed on to Del Este the tax benefits flowing from the fact that Del Este is part of Beard, which files a consolidated return. Del Este accepted the staff's calculations.

Net-to-Gross Multiplier

There is no issue over the net-to-gross multiplier, calculated at 2.0535, and based on the following:

California corporation franchise tax rate	9.0%
Federal income tax rate	46.0%
Uncollectible rate	0.360%
Local franchise rate	0.5436%

Utility Plant

The 1980 utility plant estimate exceeds the staff estimate by \$201,000. Staff estimates were made after a field investigation and differences are due to later information available to the staff. Both the company and the staff excluded mandatory metering from their estimates.

Depreciation Expense and Reserve

Del Este's 1980 estimate exceeds the staff by \$8,900. The staff's estimate of the 1979 beginning-of-year depreciation reserve is based on the recorded 1979 beginning-of-year balance and adjusted to reflect utility plant adjustments made by the staff when using more recent information than the company had when it prepared its exhibit. (See Exhibit 6, paragraph 8.3, and discussion in paragraph 9.1 through 9.4.)

Del Este also recommended the adoption of its depreciation rates. The staff recommended their adoption after reviewing them,

with a few minor exceptions which the company now accepts. The staff had access to later data in making its revisions. (Specific depreciation rates are listed in Exhibit 6 on page 15.) The staff-recommended rates are adopted.

Rate Base

The 1980 weighted average depreciated rate base estimate of Del Este (\$2,910,800) exceeds the staff's estimate (\$2,781,500) by \$129,300. The staff based its estimate on later data and on the 13-month weighted average balances of materials and supplies for 1975-1978, adjusted to remove the effect of unusual amounts of transmission and distribution main construction occurring in 1976 and 1977.

Del Este completed its working cash study using Standard Practice U-16 ("simplified method"). Exhibit 6 points out (page 18) that this method was developed over ten years ago and "since its development, substantial changes involving the relationship of revenue elements to the items of expense have taken place." Regarding Del Este in particular, two changes having significant impact are (1) the relative increase in purchased power expense and (2) the magnitude of prebilled flat rate revenue.

The staff therefore completed a detailed study of cash flow (Exhibit 6, page 17) and recommends its adoption and the use of its methodology in future rate increase applications of Del Este. The staff's recommendation is reasonable and is adopted.

Allowance for Attrition
In Rate of Return (Step Rates)

Del Este originally applied for step rates through 1980. The staff (Exhibit 6, page 25) recommends step rates through 1981, at steps of 1 percent. The staff's recommendation states:

"Based on the utility's calculations of rate of return at present rates, its estimate of operational attrition would be approximately 1.7%.

"The staff's estimate of 1.0% for operational attrition is based on its estimates of the results of operations for the test years 1979 and 1980. In estimating attrition, the staff considered the rates of return generated at present rates and at 1979 proposed rates (i.e., for attrition, 1980 revenues are estimated at 1979 rates). The staff adjusted annual purchased power expenses to reflect the following latest power rates:

9-11-78	PG&E - Gas
2-2-79	PG&E - Electric
6-15-78	M.I.D. [Modesto Irrigation District] - Electric
2-11-77	T.I.D. [Turlock Irrigation District] - Electric (with zero purchased power surcharge)

"Purchased water and purchased power expenses were adjusted in order to reflect the utility's opinion that purchased water will not be necessary in 1981. The affected items - working cash allowance, FIT, and CCFT - were adjusted to reflect the changes.

"Staff is well aware that even a 1.0% attrition in the rate of return may appear unusually high, but it would provide an approximate increase in gross revenue of \$57,000 - a 3% increase in the total revenue at proposed rates - based on the staff's estimated 1980 rate base.

"The utility should make appropriate expense adjustments to reflect the decrease in the purchased water expense - a net reduction of \$12,500 - in 1981 when the advice letter for setting rates in 1981 is filed."

We believe the staff's recommendation is reasonable and should be adopted. This decision will be signed near the end of 1979. Over the last several months, Del Este has been operating not on its proposed, or staff-recommended 1979 rates, but on lower interim rates set in our interim decision (see Introduction). It is undesirable to place final 1979 rates in effect for a month or less. We will

make this decision effective the date of signature and allow the 1980 rates to become effective on or after January 1, 1980. Because of our rate of return and results of operation determinations, no refund of interim rates is in order.

Del Este will be required to file an advice letter with supporting work papers on or after November 15, 1980 to justify its proposed 1981 step increase.

Pump Efficiency

In our general investigation of water conservation, we have determined to require pump efficiency tests (see Decision No. 88466 dated February 7, 1978).

Del Este, as of 1979, used 65 pumps. Depending on location, power supply is furnished by either Pacific Gas and Electric Company, the Modesto Irrigation District, or the Turlock Irrigation District. All pumps were tested except those whose power supply is from the Turlock Irrigation District because of inadequate testing equipment on the part of that district. This inadequacy is being remedied. This resulted in 51 of the pumps being tested.

Twenty-five of the 51 pumps tested were found to be in the "low efficiency" category.^{1/} According to the staff development (Exhibit 6, page 24), if pump plants with "low" ratings were improved to "fair", there would be a decrease of 382,700 kWh (or, based on Modesto Irrigation District rates,) a decrease of \$8,075 in electrical rates.

^{1/} The staff analysis has four categories: "low", "fair", "good", and "excellent". The statistical "wire-to-water" ranges for these categories are shown in Exhibit 10.

The staff did not recommend an adjustment to Del Este's expenses as a result of the low ratings.^{2/} The history of this company shows that its service is good and that its maintenance procedures are generally proper; therefore, we will make no such adjustment; however, we will expect continuous, if gradual, pump efficiency improvement. The staff exhibit states (Exhibit 6, page 24):

"Those pumps found by calculations or pump test to be operating at low plant efficiencies which result from mechanical and/or electrical causes should be overhauled as expeditiously as possible, but no later than 12 months after determination of economic justification with priority given to those having the largest load factors.

"Staff suggests that economic justification can be defined as that determined by the present worth or present value method. If initial cost to improve to a good range is less than the expected present worth of annual savings in energy cost (n = 10 years) at the latest determined rate of return, then the plant should be upgraded."

We agree with this recommendation.

Water Conservation and Metering

In our water conservation investigation, Case No. 10114, we have decided to require each Class A and Class B water to include as part of its presentation in a general rate proceeding an analysis of the costs and benefits of metering new service to various classes of customers, and the costs and benefits of converting various classes of existing flat rate service to metered service. (Decision No. 88692 dated April 11, 1978.)

^{2/} In California Cities Water Company, CPUC _____, Application No. 57969, Decision No. 90945 (July 3, 1979) a minor adjustment of this type was made but the amount was so small as to have a negligible effect on operating expenses, and the record indicates that the company did not challenge the adjustment.

Del Este currently meters all services of one-inch diameter and larger, including residential, and also meters all multi-family dwellings and all nonresidential services. Single-family dwellings, except for the Hillcrest service area, are on flat rate tariffs. These dwellings have 3/4-inch mains (or smaller) and vary widely in lot size. Single-family dwelling service was the subject of the survey.

Initially, in 1978, Del Este developed a cost-benefit study of metering primarily with reference to the cost of purchased power saved through conversion to metering (Exhibit 1, Chapter 3). The staff notified Del Este that it considered such a study incomplete. Thereupon Del Este completed a more thorough analysis, the results of which are explained in Exhibit 2. Del Este is to be commended on the completeness of the material submitted.

The conclusion of Del Este's report is that there is not a proper cost benefit to metering flat rate residential service at this time. Based on government studies, Del Este assumed a 35 percent reduction in consumption if residential lots in its service territory were metered. The cost to convert to metering at January 1977 price levels would have been \$1.6 million (Exhibit 1, page 3-12). Total annual cost of metering (meter reading, meter maintenance, and equivalent annual capital cost) was estimated at \$24.40 per 3/4-inch meter. On this basis Del Este expresses the following conclusion (Exhibit 1, page 3-13):

"Benefits to be obtained from metering consist of the avoidance of purchased power costs at \$0.0382 per Ccf of water conserved expressed on a delivered sales basis. Hence, in order for a metering program to be cost effective, annual reduction in sales must amount to \$24.40 ÷ \$0.0382 = 639 Ccf per 3/4-inch service. Since flat rate per customer sales in 1977 amounted to 361.57 Ccf, it is clear that metering Del Este flat rate services cannot be cost effective."

Exhibit 2 reviews certain problems regarding the Modesto area water basin. There is currently no agency managing, on an area-wide basis, the withdrawal of ground water. Del Este's extractions have been less than 10 percent of the combined extractions of all entities.^{3/} (Tr. page 58.) Exhibit 2 summarizes the problems as follows:

- "1. Under current laws, no basin adjudication is probable in the foreseeable future. [I.e., it is unlikely that either litigation or administrative action will determine rights to the water.]
- "2. There is controversy as to whether the basin is currently being overdrawn. [There are local areas which are overdrawn but it is uncertain that the basin as a whole is overdrawn.]
- "3. The benefit value of a water right in an adjudicated basin to an investor-owned utility and to its ratepayers, acquired at virtually no out-of-pocket cost due to past extraction history could be nil, since it is equal to the capitalized earnings value of the asset.
- "4. The cost of an alternative source of supply project to be constructed by Del Este is not an indicator of the benefit value of the water conserved by metering, since this hypothetical project is not a viable solution to any long term basin water quality or quantity problem.
- "5. Should metering be imposed on the company and not on the public agencies or private extractors who are also pumping from the basin, then the benefit value of the water conserved could be negative, or a cost to both the company and its ratepayers. This is because the extraction history of the company,

^{3/} In addition to Del Este there are: the city of Modesto, the Turlock Irrigation District, the Modesto Irrigation District, and many local farmers who have their own private wells.

expressed as a percentage of total basin extraction, would show a significant decrease. Should the basin subsequently be adjudicated or otherwise managed, and should extraction history be used to determine allocation of safe yield during a temporary drought period, then the company and its ratepayers would be penalized. Water conservation, brought about by metering of the company's flat rate customers would then result in a benefit to the other basin extractors and a cost to the company and its ratepayers, over and above the costs incurred by metering."

Regarding water extraction, investigation shows that the Turlock Irrigation District considers its water levels stable, and the Modesto Irrigation District, in 1977 and in other recent years, has actually used drainage pumps to extract water for the purpose of stabilizing rising waters in portions of the basin.

The preceding paragraphs are only a brief summary of the factors discussed in Exhibit 1, Chapter 3, and Exhibit 2. The staff concurs that at this time we should not order metering of flat rate service for this company. We agree that because of an inadequate cost benefit from such metering and because of local conditions in the Modesto area, no such order should be made at this time.

Del Este also presented a review of its water conservation program, which is a permanent part of its operations (Exhibit 1, pages 3-3 and 3-4). The following activities have been undertaken to date: (1) distribution of water conservation kits; (2) customer involvement and education programs; (3) leak detection and mitigation; (4) locating and minimizing differentials in operating pressures, and (5) energy conservation. This program is satisfactory.

Rate Design

The major question on this subject was whether to adopt the company's proposal to charge flat rate users on the basis of lot size rather than the present uniform flat rate charge. A staff field

investigation confirmed the company's findings that such a method is more equitable than the present rate structure for flat rate users. The staff therefore recommended the adoption of Del Este's proposal. Other staff recommendations were as follows (Exhibit 6, pages 24 and 25):

"Water use analysis table for metered commercial use indicates a high proportion of customer bills for the smaller meters substantially below the minimum charge level of 10 Ccf. . . In keeping with the lifeline principle, the first block should be decreased to 0-5 Ccf from the present range of 0-10 Ccf while maintaining the three-block structure:

0-5 Ccf
Next 95 Ccf
Over 100 Ccf

"In recognizing the lifeline principle, the rate structure for the general metered service should provide a lesser percentage increase in billed costs for very small usage than for average and larger usage.

"The minimum charges for the 3/4-inch and 1-inch meters should be rounded to the nearest 10 cents. The minimum charges for meters larger than 1-inch should be rounded to the nearest dollar."

These recommendations are reasonable and will be incorporated into the adopted 1980 rates attached to this decision.

We also agree with the staff that the company should consider changing its metered rate schedule from its present minimum charge to a service charge-type rate schedule after conducting an appropriate cost-of-service study to be presented in its next general rate increase application. This is not a statement on our part that we have predetermined the issue of such a schedule's adoption.

Quality of Service

Because of lack of available funds for a hearing in the Modesto area, the public hearings on this application were held in San Francisco. However, an informal public meeting was held on the evening of March 15, 1979 in Modesto. Representatives of the company and the staff attended. The meeting was the subject of prior newspaper advertisement.

Two customers of the Hillcrest service area attended and wanted to know why the domestic service in the area could not be flat rate rather than the only metered residential area. The staff determined that the continuance of metered service was justifiable because of high average water usage.

The staff interviewed 28 Del Este customers on February 23, 1979 and these customers were generally satisfied with the quality of water. A few said they observed occasional sand and sediment. Water pressure was within the 40 to 60 psig range, which is within the allowable range under General Order No. 103.

A summary of customer complaints showed the most common sources of trouble to be leaks and low pressure. The utility records indicated a satisfactory solution to complaints within approximately two days of the report.

The evidence in this proceeding demonstrates that water quality, water pressure, and customer service are satisfactory.

Findings of Fact

1. Del Este's present interim rate of return on rate base of 8.9 percent is inadequate, and a rate of return on rate base of 11.40 percent producing a return on common equity of 13.00 percent is reasonable.
2. Based upon the adopted results of operation and the adopted rate of return, we find that Del Este is in need of additional revenues in the amount of \$103,400 for 1980, plus a 1 percent attrition allowance for 1981, subject to the filing of an advice letter justifying a 1981 step rate increase.
3. The staff's test year estimates of revenues, expenses, and rate base are reasonable, including a 7 percent estimate for management salary increases.
4. Del Este's pump efficiency program is adequate. No downward adjustment to operating expenses for low pump efficiency should be made based on the record in this proceeding.

5. The record does not demonstrate an adequate cost benefit to require Del Este to change from flat rate to metered residential service at this time.

6. Del Este's water quality, water conservation program, and water pressure are satisfactory.

7. The staff's rate design recommendations are reasonable.

8. The staff's recommendation that Del Este make a study for its next general rate increase application regarding whether a service charge-type rate schedule should replace its present minimum charge-type schedule for metered service is reasonable.

9. Because of our rate of return and results of operations findings, no refund of interim rates is in order.

Conclusions of Law

1. Del Este is in need of additional revenues of \$103,400 for 1980, plus a step increase of 1 percent for 1981, subject to the filing of an advice letter justifying the step increase.

2. Del Este should continue its pump efficiency improvement program.

3. At this time, Del Este should not be ordered to convert its flat rate residential service to metered service.

4. Adopted rates should be designed to include the staff's recommendations.

5. In its next general rate increase application, Del Este should present the study described in Finding No. 8.

6. Because this matter has been pending for some time and because this order will be signed near the end of 1979, we should order the adopted 1980 rates to go into effect on or after January 1, 1980 without first instituting 1979 rates, and the effective date of this order should be the date it is signed.

F I N A L O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order Del Este Water Company (Del Este) is authorized to file the revised rate schedules

attached to this order as Appendix A and concurrently to withdraw and cancel its presently effective schedules. The effective date of the revised rate schedules shall be on or after January 1, 1980, but not less than five days after the date they are filed. The revised schedules shall comply with General Order No. 96-A and shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1980 Del Este is authorized to file an advice letter, with appropriate work papers, requesting authority to file step rates incorporating the appropriate step increases attached to this order as Appendix B or to file step rates with a lesser increase if the recorded rate of return for Del Este on a pro forma basis for twelve months ending September 30, 1980 (with appropriate ratemaking adjustments) exceeds the rate of return authorized by this decision. 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. The step rates filed pursuant to this ordering paragraph shall apply only to service rendered on and after their effective date, which shall not be sooner than January 1, 1981.

3. Del Este shall continue its pump efficiency improvement program.

4. Del Este shall present the study described in Finding No. 8 in its next general rate increase application.

The effective date of this order is the date hereof.

Dated DEC 18 1979, at San Francisco, California.

John E. Guyon

President
James L. ...

Michael D. ...

Charles J. ...

Lawrence ...

Commissioners

SCHEDULE NO. 1
METERED SERVICE

14
 12/17

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest, and vicinity, Stanislaus County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu. ft. or less.....	\$ 3.80 (C) (I)
Next 9,500 cu. ft., per 100 cu. ft.....	0.317 (C) (I)
Over 10,000 cu. ft., per 100 cu. ft.....	0.209 (I)

Minimum Charges:

For 5/8 x 3/4-inch meter.....	\$ 3.80 (I)
For 3/4-inch meter.....	5.20 (I)
For 1-inch meter.....	6.60 (I)
For 1 1/2-inch meter.....	14.00 (I)
For 2-inch meter.....	21.00 (I)
For 3-inch meter.....	40.00 (I)
For 4-inch meter.....	68.00 (I)
For 6-inch meter.....	124.00 (I)
For 8-inch meter.....	193.00 (I)
For 10-inch meter.....	290.00 (I)
For 12-inch meter.....	389.00 (I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. _____

Date Filed _____

Decision No. _____

Effective January 1, 1980

Resolution No. _____

SCHEDULE NO. 2
FLAT RATE SERVICE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATES

Per Service Connection
Per Month

For a premise served by an unmetered water connection having the following areas:		(N)
6,000 sq.ft., or less	\$ 5.90	(N)
6,001 to 10,000 sq.ft.	6.60	
10,001 to 16,000 sq.ft.	7.80	
16,001 to 25,000 sq.ft.	9.60	
Over 25,000 sq.ft.	11.90	(N)

SPECIAL CONDITIONS

1. Meters may be installed at the option of the utility or the customer, in which event service thereafter will be furnished only under Schedule No.1, Metered Service. A customer's request for metered service must be made in writing.

2. Customers requesting service of the following types will not be served under this schedule, but will be served under Schedule No. 1, Metered Service:

- a. Residential service connections larger than 3/4" diameter or any 3/4" residential service that, in the utility's judgment, may consume excessive water because of lot size, special equipment, or unusual use.
- b. Service connections to commercial or business establishments.
- c. Service connections for agricultural purposes.
- d. Service connections to premises containing multiple dwellings or dwellings and occupied trailer houses.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. _____

Date Filed _____

Decision No. _____

NAME

Effective January 1, 1980

TITLE

Resolution No. _____

A. 58184
DEL ESTE WATER COMPANY
P.O. Box 3250
Modesto, CA 95353

Revised
Canceling Revised

APPENDIX A
Page 3 of 3
Cal. P.U.C. Sheet No. _____
Cal. P.U.C. Sheet No. 207-W

SCHEDULE NO. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATE

Per Month

For each inch of diameter of service connection \$ 2.35 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. _____

Date Filed _____

Decision No. _____

Effective January 1, 1980

Resolution No. _____

NAME

TITLE

Revised _____
 Canceling Revised _____

SCHEDULE NO. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest, and vicinity, Stanislaus County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 500 cu. ft. or less.....	\$3.90	(I) ✓
Next 9,500 cu. ft., per 100 cu. ft.....	.325	(I) ✓
Over 10,000 cu. ft., per 100 cu. ft.....	.216	(I) ✓
Minimum Charges:		
For 5/8 x 3/4-inch meter.....	\$ 3.90	(I) ✓
For 3/4-inch meter.....	5.40	(I)
For 1-inch meter.....	6.80	(I)
For 1-1/2-inch meter.....	14.00	
For 2-inch meter.....	22.00	(I)
For 3-inch meter.....	41.00	(I)
For 4-inch meter.....	70.00	(I)
For 6-inch meter.....	128.00	(I)
For 8-inch meter.....	199.00	(I)
For 10-inch meter.....	299.00	(I)
For 12-inch meter.....	401.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. _____

Date Filed _____

Decision No. _____

NAME

Effective January 1, 1981

TITLE

Resolution No. _____

Revised _____
Revised _____
Canceling _____

SCHEDULE NO. 2

FLAT RATE SCHEDULE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Crayson, and Hillcrest and vicinity, Stanislaus County.

RATES

Per Service Connection
Per Month

For a premise served by an unmetered water connection having the following areas:

6,000 sq. ft., or less.....	\$ 6.10	(I)
6,001 to 10,000 sq. ft.....	6.80	
10,001 to 16,000 sq. ft.....	8.00	
16,001 to 25,000 sq. ft.....	9.90	
Over 25,000 sq. ft.....	12.30	(I)

SPECIAL CONDITIONS

1. Meters may be installed at the option of the utility or the customer, in which event service thereafter will be furnished only under Schedule No. 1, Metered Service. A customer's request for metered service must be made in writing.

2. Customers requesting service of the following types will not be served under this schedule, but will be served under Schedule No. 1, Metered Service:

- a. Residential service connections larger than 3/4" diameter or any 3/4" residential service that, in the utility's judgment, may consume excessive water because of lot size, special equipment, or unusual use.
- b. Service connections to commercial or business establishments.
- c. Service connections for agricultural purposes.
- d. Service connections to premises containing multiple dwellings or dwellings and occupied trailer houses.

(To be inserted by utility)

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Decision No. _____

Effective January 1, 1981

Resolution No. _____

NAME

TITLE

Revised _____
Revised _____
Canceling _____

SCHEDULE NO. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

RATE

Per Month

For each inch of diameter of service connection.. \$2.40 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(To be inserted by utility)

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Resolution No. _____

NAME

TITLE