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Decision No. 92874 APR 7 1981 ORIGINAL 10

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 Visalia District.

Application No. 59665
(Filed May 16, 1980)

McCutchen, Doyle, Brown and Enersen, by A. Crawford Greene, Attorney at Law, for applicant.
Robert Cagen, Attorney at Law, Dana Gardner, and Mehdi Radpour, for the Commission staff.

I N D E X

SUMMARY OF DECISION

By this application, the third of six in this consolidated rate proceeding, California Water Service Company (Cal-Water) sought annual step rate increases over the 1981-1983 period of $328,000 (18.5 percent), $58,400 (2.7 percent), and $80,100 (3.6 percent), respectively, for its Visalia District.

Because a final decision was delayed beyond the time limits provided in the Commission's Regulatory Lag Plan, the Commission, pending issuance of a final decision, by Decision No. 92716 on February 18, 1981 granted interim relief in the amount of $201,000 (10.73 percent).

By this final opinion we find reasonable and authorize a rate of return of 10.89 percent, 11.08 percent, and 11.50 percent, respectively, on rate base for 1981, 1982, and 1983, with the related rate of return on common equity remaining constant at 13.7 percent. These returns (which include the February 1981 interim increase) require an increase in annual revenues for the Visalia District of $232,300 (12.7 percent) in 1981, a further increase of $46,500 (2.2 percent) in 1982, and a further increase of $69,700 (3.17 percent) in 1983.

We further find that applicant's capitalization structure and general financial considerations permit reliance upon long-term financing to meet external capital needs during the test period. The Commission accepted as reasonable applicant's estimate of 13.1 percent as the anticipated cost of such debt.

District issues were resolved by Commission adoption of: (1) staff's proposal to transfer 3 undeveloped well sites presently in Rate Base out to Land Held for Future Use; (2) applicant's estimates of the average number of Flat Rate Commercial class services for each of the test years; and (3) staff's estimate of Public Authority consumption per service for each test year. In a number of other instances of initial differences between applicant and staff, applicant, with our approval, accepted staff's proposals.

The existing 2-block rate structure was retained. However, in the interest of promoting conservation, the first block (lifeline) was cut back from 0-5 Ccf to 0-3 Ccf while the existing first block rate and the existing service charge for the basic 5/8 x 3/4-inch meter will remain unchanged until the total of the revenue increases since January 1, 1976 exceeds 25 percent. Otherwise, the increases in rates and charges will be spread percentagewise equally between the commodity charge and the service charge.

FINAL OPINION

Statement of Facts

Cal-Water, a California corporation with gross operating revenues in 1979 of approximately $54,000,000 is owned by 7,700 shareholders. It has $231,000,000 invested in utility plant (including plant under construction). Employing 495 persons statewide, it is engaged in the business of supplying and distributing water for domestic and industrial purposes to 305,000 customers in communities within the State of California.

Operating through 20 local districts, Cal-Water maintains its principal place of business in the city of San Jose. From there it provides centralized billing, accounting, engineering, and water quality control functions to its respective local districts. A central meter repair facility is located in the city of Stockton. Cal-Water's operating districts are not integrated one with another, and except for allocation of general office common expenses and rate base to the respective districts, the revenues and expenses of each district are not affected by operations in the other districts. For ratemaking purposes, therefore, each district is considered a distinct, separate entity, and it is the responsibility of this Commission to fix reasonable rates to be applicable to each district (Section 728 of the Public Utilities Code). Rates are reasonable when they provide sufficient revenue to cover the total costs (such as operating expenses, depreciation charges, taxes, and return on investment) properly incurred in furnishing the required service.

Asserting a necessity to offset increases in its operating expenses, rate base, and cost of money, on May 16, 1980, Cal-Water filed separate applications for six of its districts, including the instant application for the Visalia District, seeking authority to increase its rates. In order to minimize the adverse effects of anticipated operational and financial attrition upon the company, applicant proposed annual step increases over the next three years.

In the Visalia District these step increases would increase annual gross revenues over those in effect at the time this application was filed by $328,000 (18.5 percent) in 1981, by an additional amount of $58,400 (2.7 percent) in 1982, and by $80,100 (3.6 percent) in 1983.

Pursuant to provisions of the Commission's Regulatory Lag Plan (adopted by Commission Resolution No. M-4703 dated April 24, 1979), and following bill insert notices mailed to each customer of the utility in the district, an informal public meeting was called for Tuesday evening, May 27, 1980, at 7:30 p.m. in the Convention Center in Visalia. No customers appeared. There were no communications received from public agencies or private individuals relating to the proposed increase.

In that the applications for all six districts contained common issues relating to corporate general office expenses, corporate financing, and the rate of return on common equity, the six applications were consolidated for hearing. After notice, public hearings were held in San Francisco on September 15, 16, 17, 19, and 22, 1980 before Administrative Law Judge John B. Weiss (ALJ). At the outset of the hearing on September 15, 1980, applicant presented evidence of compliance with the requirements for notice, service, and publication as set forth in the Commission's Rules of Practice and Procedure relative to this class of application. During the hearings applicant presented testimony and exhibits through its president, three vice presidents, and an assistant chief engineer. The staff of the Commission presented testimony and exhibits through a staff project engineer, a rate-of-return research analyst and three utility engineers. No public witnesses appeared. The matter was submitted at close of hearing September 22, 1980 with provision for an October 14, 1980 filing of concurrent closing briefs.

Discussion

Service Territory, System, and Service Quality

Applicant's Visalia District includes most of the city of Visalia and adjacent unincorporated areas of Tulare County. The population served is estimated at 59,000. The entire water supply, in 1979 4,688.7 million gallons, is obtained from 57 company-owned wells located throughout the service area. Wells vary in depth from 116 to 417 feet. All well pumps are automatically controlled and electrically operated, and most pump directly into the 213 miles of interconnected distribution mains. There are two 300,000-gallon elevated storage tanks in the system. The terrain is flat and the service area ranges in elevation from 311 to 353 feet above sea level.

During 1979 applicant logged 28 complaints from customers; half pertaining to water quality. During the first 4 months of 1980 there were 11 additional complaints. According to our staff these complaints were investigated and resolved by the utility within a reasonable time after notification. From the small number of complaints and judging by the lack of response to this application, it would appear that service is satisfactory in this district.

Conservation

Applicant presented evidence of its continuing efforts to promote conservation. Responsibility has been delegated to all district managers to speak to school groups and to civic organizations on the subject. In addition, the district continues to maintain a conservation display in its office and offers free water-saving kits as well as informational brochures. Apart from bill inserts featuring conservation messages, the company provides billing information to enable customers to compare current usage with usage for a comparable previous year billing period. In Visalia the company's bill inserts were well-designed, eye-catching illustrated messages pointing up collateral benefits to the customer from avoidance of gutter flooding, in-home waste, and dripping faucets. The messages in English and Spanish were effectively constructed. There was also some use of paid advertising similarly designed. The company also planned to work with the city in developing a model urban water conservation garden on one of its facility sites. In Visalia it is evident from 1979 sales levels that conservation practices initiated during the 1977 water rationing program still affected water sales although on a diminishing scale.

In the interest of power conservation the utility has also instituted a pump-efficiency testing program, and has furnished staff with reports which show that the district's pumps are either within or above the fair range established in Decision No. 88466 dated February 7, 1978 in Case No. 10114.

Present and Proposed Rates

The Visalia District in 1979 served an average of 2,646 residential and business services, 12 industrial services, and 137 public authority services on its metered schedules. In addition, there were an average of 12,754 residential and business, and 1,298 public and private fire protection services served in its flat rate schedule.

The last general rate increase for this district was authorized by Decision No. 87338 dated May 17, 1977 in Application No. 56251. The present rates, reflecting interim offset increases and other adjustments since, became effective March 18, 1980 by Resolution No. W-2609.[1/] By the instant application Cal-Water proposes to increase both general metered and residential flat rates.

1/ Since filing the application, applicant has received authority (see Resolution No. W-2671 (Advice Letter No. 74)) to increase its rates 3.7 percent effective July 2, 1980 to reflect an increase in the cost of purchased power.

A comparison of present (updated to reflect the July 2, 1980 increase) monthly charges and proposed monthly charges follows for: (1) an average commercial (residential and business) customer with a 5/8 x 3/4-inch meter using 4,400 cu.ft. of water per month; (2) an average industrial customer with a 4-inch meter using 33,000 cu.ft. of water per month; and (3) an average residential customer with premises falling within the 6,001 to 10,000 sq.ft. bracket.

TABLE A

Cal-Water Service Company - Visalia District

Comparison of Monthly Charges - Present & Proposed

Item	1981	1982	1983
(1) Average Commercial Customer			
At Present Rates			
Monthly Charge	$10.82	$ 10.82	$ 10.82
At Proposed Rates			
Monthly Charge	12.30	12.47	12.92
Increase over Present Rates:			
Amount	1.48	1.65	2.10
Percent	13.7%	15.2%	19.4%
(2) Average Industrial Customer			
At Present Rates			
Monthly Charge	$82.71	$ 82.71	$ 82.71
At Proposed Rates			
Monthly Charge	99.21	101.93	106.51
Increase over Present Rates:			
Amount	16.50	19.22	23.80
Percent	19.9%	23.2%	28.8%
(3) Average Flat Rate Customer			
At Present Rates			
Monthly Charge	$ 7.64	$ 7.64	$ 7.64
At Proposed Rates			
Monthly Charge	8.99	9.24	9.54
Increase over Present Rates:			
Amount	1.35	1.60	1.90
Percent	17.7%	20.9%	24.9%

Results of Operations

As part of its application Cal-Water submitted summaries of operating revenues and expenses incurred in the Visalia District for the 5-year period 1975 through 1979, together with similar summaries covering expenses of its general corporate operations. From these it projected district operating revenue and expense estimates for the test years at issue, using the latest known rates for purchased power, ad valorem taxes, and other data. After submission of applicant's application, as changes occurred, instead of amending the estimated summaries of earnings each time, applicant informed staff of the changes, and furnished the new data so that staff could reflect the changes and later data in its later exhibits. Therefore, staff's exhibits in some instances varied from applicant's. In part, this is because they may be based on later information; in other cases it is because applicant and staff did not agree.

After staff's exhibits were prepared applicant reviewed them and adopted those portions where there were no issues, and also some portions where the impact of the potential issue was insignificant. In other instances applicant does not agree with the staff's proposed adjustments, but for the purpose of expediting this proceeding, elected not to take issue and accepted the adjustments. However, in three instances applicant does not agree with staff's proposals, placing them in issue. These issues relate to staff's adjustments proposed (1) for the number of flat rate commercial services, (2) the volume of Public Authority sales, and (3) the transfer of three well sites into plant held for future use.

Table B, which follows, sets forth the summaries of earnings initially proposed by each party, based on rates in effect May 16, 1980.

TABLE B

Cal-Water Service Company - Visalia District

Comparison - Applicant and Staff - Original Summary of Earnings

(Dollars in Thousands)

Items	Test Year 1981 Applicant	Test Year 1981 Staff	Test Year 1982 Applicant	Test Year 1982 Staff
Present Rates *				
Operating Revenues	$1,774.8	$1,806.7	$1,846.6	$1,897.7
Operating Expenses				
Purchased Power	332.4	340.0	347.9	357.5
Payroll - District	367.4	367.4	398.6	398.6
Other Operation & Maint.	189.6	190.1	209.6	210.4
Other Admin. & Genl. & Misc.	25.1	25.1	25.6	25.6
Ad Valorem Taxes - District	78.9	77.3	87.9	84.2
Payroll Taxes - District	27.0	27.0	29.2	29.2
Business License	0.9	0.9	0.9	0.9
Depreciation	236.9	230.4	262.2	251.9
Ad Valorem Taxes - G.O.	1.1	1.1	1.2	1.2
Payroll Taxes - G.O.	5.3	5.3	5.6	5.6
Other Prorates - G.O.	205.6	202.8	222.6	219.5
Subtotal	1,470.2	1,467.4	1,591.3	1,584.6
Uncollectibles	4.7	4.8	4.9	5.0
Income Taxes Before ITC	(73.2)	(35.8)	(116.9)	(66.1)
Investment Tax Credit	(99.3)	(92.8)	(111.8)	(104.5)
Total Operating Expenses	1,302.4	1,343.6	1,367.5	1,419.0
Net Operating Revenues	472.4	463.1	479.1	478.7
Rate Base	5,520.1	5,283.8	5,832.8	5,563.7
Rate of Return	8.56%	8.76%	8.21%	8.60%

(Red Figure)

* Rates in effect May 16, 1980.

TABLE B - Contd.

Cal-Water Service Company - Visalia District

Comparison - Applicant and Staff - Original Summary of Earnings

(Dollars in Thousands)

Items	Test Year 1981 Applicant	Test Year 1981 Staff	Test Year 1982 Applicant	Test Year 1982 Staff
Proposed Rates				
Operating Revenues	$2,102.8	$2,122.8	$2,246.3	$2,289.9
Operating Expenses				
Subtotal	1,470.2	1,467.4	1,591.3	1,584.6
Uncollectibles	5.6	5.6	5.9	6.0
Income Taxes Before ITC	94.2	125.5	87.1	134.2
Investment Tax Credit	(99.3)	(92.8)	(111.8)	(104.5)
Total Operating Expenses	1,470.7	1,505.7	1,572.5	1,620.3
Net Operating Revenues	632.1	617.1	673.8	669.6
Rate Base	5,520.1	5,283.8	5,832.8	5,563.7
Rate of Return	11.45%	11.68%	11.55%	12.04%

(Red Figure)

In reviewing the adjustments proposed by the staff, both those adopted by applicant, and those opposed by applicant and still at issue, we will consider these adjustments categorized by components to the summaries.

Estimates of Operating Revenues

As is readily obvious from Table B, there are substantial differences between the estimates made by applicant and staff of operating revenues for the test years. Each party, for certain classes of service, started with its own judgmental forecast of the number of services to be anticipated, and each party then applied its estimate of consumption expected from each service.

In the Commercial metered class, staff estimated 15 more new services than did applicant for each test year. In the interest of expediting this proceeding applicant accepted staff's higher estimate. We will, too.

In the Commercial flat rate class, applicant originally estimated an increase annually in the average number of services of 440 each test year. Applicant's estimate was made at the start of 1980, and against the factual backdrop that annually during the mid-70's it had been adding 500 to 600 to the average number of services, and that this pace had quickened to add 856 in 1977, 630 in 1978, and 651 in 1979. But early in 1980 the economic bubble burst, and by mid-1980 10.9 percent of its services were inactive. The 12-month increase rate was plummeting, so that by August 1980 it was running at an annual rate of only 328.[2/] Accordingly, at the hearing applicant revised its estimates to predict an increase in the average number of services in 1980 of only 300, with 375 for 1981, and 450 for 1982. At the same time staff stuck to its estimate of 492 for 1980, and 615 for each year, 1981 and 1982. Despite the economic turnaround, staff declined to revise its estimates at the hearing, basing its position

2/ In fact, during the first 8 months in 1980, only 138 flat rate services had been added. This compares to 500 for the same 8-month period the year before.

heavily upon its discussions with applicant's Visalia district manager, who had informed staff that 20 housing tracts, many of low-income character, were in the works, having cleared the planning commission. Staff also testified of 36 new units being completed along with a new intermediate school.

We cannot adopt staff's projections in this instance. Planning commission approval is one matter, but there is many a slip betwixt cup and lip when one compares obtaining planning approval against actually accepting the risk of building or being able to obtain building funds in an economic situation marked by double digit inflation and soaring interest rates, all against a 10.9 percent vacancy rate. We adopt applicant's estimate of the annual increase in the average number of services of 300 in 1980, 375 in 1981, and 450 in 1982.

Looking next to consumption, as we noted earlier we are aware that conservation practices initiated in Visalia during the 1977 water rationing program are still producing lowered consumption, although at decreasing rates. Both applicant and staff used the Modified Bean Method to develop normalized consumption projections for each class of service. Data after 1976 was excluded as it reflected drought conservation in 1977 and residual conservation effects in 1978 and 1979. After obtaining normalized consumption per service projections, both parties adjusted these figures. Their results were very close for Commercial metered and Commercial flat rate classes, and rather than contest staff's estimates, applicant adopted them at the hearing. We will do the same and use 544.9 Ccf for 1981, and 548.1 Ccf for 1982 for average consumption for Commercial metered services, and 334.2 CCf for both test years 1981 and 1982 for Commercial flat rate per service consumption.

Proceeding next to the disputed <u>Public Authority class</u> estimates, we see that while staff and applicant agree on applicant's estimate of the number of services to be served in each test year, they disagree on the average sales per service to be anticipated for each test year. Both applicant and staff used the Modified Bean Method to trend consumption per service for years 1970 through 1979 (but excluding years 1977 and 1978), and then both parties weather-adjusted the results. An unadjusted least squares trend line would indicate average consumption per service of 855 Ccf in 1981 and 798 Ccf in 1982. The utility's adjustments would bring these to 930.3 Ccf per service in 1981 and 894.6 Ccf in 1982. Staff adjustments arrive at 990 Ccf per service for each test year.

The pre-drought trend line was definitely downward. However, the 1979 per service consumption (at 1031 Ccf per service) indicated a slight leveling off from the pre-drought trend line, as well as a sharp upward bounce away from the bottoming out of the drought years. In addition, every recorded year since 1970, including drought year 1977 but excluding post-drought year 1978, showed per service consumption in the Public Authority class to be above applicant's two test year estimates. Drought year 1978, at 899 Ccf per service, was only 31 Ccf below applicant's proposed 1981 consumption of 930.3 Ccf. Applicant's proposed 1982 per service consumption of 894.6 Ccf is below any recorded year in the 1970-79 period! Applicant's proposals are simply too low. Staff's estimate of 990 Ccf for each test year is the more persuasive and will be adopted. In that there is no disagreement over the number of services anticipated, it follows that staff's projections of operating revenues for each test year for Public Authority are adopted.

Staff's estimates of operating revenues and present and proposed rates for the two test years include Public Fire Protection surcharges in accordance with Resolution No. L-213 dated December 18, 1979 (which authorized water companies suffering lost hydrant revenues as a consequence of enactment of Assembly Bill 1653 effective January 1, 1980 to file for surcharges to recover these lost revenues).

There were minor differences between applicant and staff in estimated operating revenues to be derived from Private Fire Protection and "Other" sources. However, applicant accepted staff's projections at the hearing. These differences being relatively insignificant in result, we see no reason that we should also not adopt the staff projections.

Putting the above together, we arrive at Table C following.

TABLE C

Cal-Water Service Company - Visalia District
Operating Revenues - Adopted

Items	1981 Present Rates*	1982 Present Rates*
	(Dollars in Thousands)	
Metered Revenues		
Commercial	$ 462.3	$ 496.4
Industrial	11.0	11.0
Public Authority	37.5	38.6
Other	5.7	5.7
Public Fire Prot. Surch.	1.6	1.8
Total Metered	518.1	553.5
Flat Rate Revenues		
Commercial	1,284.5	1,326.1
Private Fire Protection	12.2	13.0
Public Fire Protection	2.2	2.2
Other	1.3	1.3
Public Fire Prot. Surch.	14.0	14.7
Total Flat Rated	1,314.2	1,357.3
Total Operating Revenues	1,832.3	1,910.8

* Adjusted to include the offset increase made effective July 2, 1980 by Resolution No. W-2671 (see Footnote 1).

The end results of these adjustments to Operating Revenues are set forth in Table F, our adopted Summary of Earnings.

Estimates of Operating Expenses

Operating Expenses are those costs which are incurred by a utility in providing service to its customers. They include not only the operation and maintenance costs, administrative and general expenses, depreciation charges, and taxes paid by the district, but also a pro rata share of those same expenses as they were incurred by the corporate facilities of the utility in support of the district. In the instant proceeding staff analyzed applicant's estimates of operating expenses applicable to both the district and the corporate general office facilities.

With minor exceptions and adjustments resulting in net lower companywide prorations of $7,800 in 1981, and $8,900 in 1982, staff found applicant's general office estimates reasonable. The adjustments were to the General Office insurance, office supply, and pension expense estimates. Staff also verified that the Visalia District's share was properly allocated to the district in accordance with standard four-factor proration procedures accepted by this Commission. Applicant agreed to the staff adjustments and made appropriate adjustment to its Operating Expense estimates at the hearing.

Turning next to the detailed operation and maintenance expense estimates as estimated by applicant and staff, we see that staff has analyzed applicant's projections, and except for some exceptions deriving primarily from differing estimates of the average number of flat rate Commercial services, disagreement on consumption by the Public Authority class and minor other differences, staff found applicant's methods and results reasonable. The costs for purchased power vary depending upon the quantity of water to be pumped. In that we have determined water consumption quantities that differ from both applicant and staff estimates, our purchased power costs differ from theirs.

When preparing their estimates both applicant and staff, in order to have a common basis for comparison, used the Southern California Edison (SoCal Edison) electric rates (an average unit cost of $0.05891 per kWh) in effect on February 18, 1980. The present power rates (an average unit cost of $0.06945 per kWh) were made effective on May 20, 1980, after the filing date of this application. Our adopted purchased power expense estimates for test years 1981 and 1982 include the additional cost of power reflected by this latter SoCal Edison increase.

Staff analysis of the administrative and general expenses and payroll taxes proposed by applicant for both 1981 and 1982 developed no issues, the staff concluding that applicant's estimates were reasonable. We will adopt them. There was a small difference between applicant and staff estimates of ad valorem taxes, but at the hearing applicant accepted staff's estimate. Ad valorem taxes generally vary with the three factors of net utility plant plus materials and supplies, assessment ratio, and tax rate. Computations here were made on a fiscal year basis using the latest effective tax rate[3/] and the beginning-of-year net plant and materials and supplies. Our estimate as adopted varies because of plant adjustments.

Staff estimated Depreciation Expense for each test year at a lesser amount than did applicant. Both parties essentially used the same methodology and again here, different results were primarily derived from differing estimates of plant additions. As discussed under Rate Base, applicant accepted staff's proposed adjustments relating to a number of items proposed to be financed by the utility during the test years. These changes included dropping certain unexpended funds proposed as a carryover to the 1980 budget, reduced allowances for nonspecific structures in the test years, and deletion

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3/ The estimates were based on full cash value as shown on the utility's 1979-1980 property tax bill. The composite rate for 1979-1980 of 0.804 percent of full market value was applied to estimate the district's tax.

of funds proposed originally for nonspecific well sites and well construction in the 3-year period involved. In addition, however, over applicant's objections we also adopted staff's proposals to transfer three well sites to plant held for future use. Finally, we also adopted staff's weighting percentage to be used to calculate the amount of net additions to be included in plant.

Differing estimates of uncollectibles, local franchise, and income taxes arise out of differing estimates of operating revenues derived from the various consumer classes, as discussed under Estimates of Operating Revenues. In computing taxes, the full flow through method of computing the depreciation deduction was used. In determining the investment tax credits for 1981 and 1982, a three-year average at a 10 percent rate was used. The increased 9.6 percent California corporation franchise tax rate, a 46.0 percent federal income tax rate, and a 0.264 uncollectible factor were used in computing those respective items. The net-to-gross multiplier was estimated to be 2.0539.

The Operating Expense estimates, as we adopt them, are set forth in Table F of this opinion.

Rate Base

Applicant used weighted average balances to develop its depreciated rate base projections for the test years. It based these projections on recorded data for the preceding 5-year period, and upon preliminary construction budgets adopted for anticipated additions to plant to be financed by the utility during the test period. It also included in its projections allocated pro rata portions of the corporate plant's general operations, and made adjustments to incorporate applicable weighted average depreciation reserves. After analysis of applicant's projections, for the most part staff found them reasonable. But staff also developed and proposed certain adjustments. With but one exception, although not necessarily in agreement, applicant reluctantly adopted them. The one applicant finds most unacceptable we will consider first.

Transfer of 3 Well Sites from Rate Base to Land Held for Future Use: Staff observed that as of June 1980, applicant owned 8 undeveloped well sites in Visalia, including 1 just purchased. But over the 1980-1982 period applicant plans to construct only 3 wells. In addition, applicant planned to purchase 6 new sites (3 specific and 3 nonspecific) in the 3-year period. Staff contends that 14 well sites held undeveloped for the future are too many and proposes that 3 existing sites currently in Rate Base be transferred to "Land Held for Future Use", thereby reducing the 1980 beginning-of-year plant account by $36,426.

Applicant strongly objects to staff's proposed transfer. It argues that the sites will be needed, that new housing developments are still clearing planning in Visalia, and many others merely await more favorable economic conditions to proceed. Applicant's witnesses asserted that it is necessary and prudent to acquire potential well sites at or prior to the time an area is actually to be developed. Staff contends that the time span these sites are held is sometimes too long. For example, the site at James and Divisadero was acquired in 1966 but to this date no well has been constructed on that site. Today the area is fairly well built out. This places the site in the posture of being a mere potential replacement site. The other two sites, acquired in 1977 and 1979, remain undeveloped and applicant could relate no specific plans to construct wells on them for the immediate future, at least, not until there would be a substantial turnabout in the housing market.4/ But with 2,000 of its Visalia

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4/ The Douglas and Palm site acquired in 1979 was selected for deletion because it was in an area where a shopping center had closed, an indicator of no impending expansion. Similarly, the Valley and Harter site acquired in 1977 is not scheduled for any immediate development. Staff was not rooted in concrete as related to these latter 2 sites. Under the economic circumstances prevailing in Visalia it concluded, and we agree, that 8 sites plus 6 more to be purchased were simply too many, especially when only 3 wells were budgeted for construction during the period of the test year. It concluded that a total of 8 sites spread around the

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services now inactive (10.9 percent), any immediate change seems unlikely. Applicant itself tangentially recognized these facts as was evident from the thrust of its arguments while we were considering Operating Revenues. Then applicant substantially lowered its original estimate of the average number of Commercial Flat Rate services to be anticipated for the test years from 440 to 300 in 1980, 375 in 1981, and 450 in 1982, and strongly asserted that changed economic conditions had curtailed building. It showed that only 138 new services had been added during the entire first 8 months of 1980 and argued that little improvement in the rate was likely. Applicant cannot have it both ways. We adopted its revised estimates of the average number of services for revenue purposes and believe the same conclusions relating to future requirements are applicable here. Accordingly, we will adopt staff's proposed transfer of the 3 existing well sites currently in Rate Base to Land Held for Future Use, thereby reducing the 1980 beginning-of-year plant by $36,426.

<u>Other Proposed Adjustments</u>: Next we turn to those staff-sponsored adjustments to applicant's estimates for the component accounts which go to make up the rate base factors; adjustments which applicant, albeit reluctantly, agreed to accept at the hearing. First, we examine the differences which originally existed in the elements making up <u>Weighted Average Plant in Service</u>.

In its analysis of <u>utility-funded additions</u>, staff noted that applicant had included $102,800 in its proposed 1980 budget to complete well projects begun in 1979, but which projects remained incomplete at

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4/ (Continued)

periphery of Visalia, where any growth will occur, would be ample. This is especially sound when we consider that applicant would be purchasing 3 of these sites, and can spot them in any areas where it concludes renascent building activity will require them.

the end of that year. Applicant indicated that it intended to construct a well in each test year here under consideration, and it also assumed that there would be no projects left uncompleted at the end of any test year. But the record shows that historically such is not the case. In Visalia what is not spent one year tends not to be spent the next year. The average carryover of unexpended funds in recent years when wells were constructed has been $92,930. Accordingly, staff concluded that substantial carryovers are normal in Visalia, and deleted the $102,800 from the 1980 budget.

Continuing its analysis of additions proposed to be financed by the utility, staff, while recognizing the need to have well sites available along the Visalia outskirts as growth is experienced, concluded that the 14 sites proposed by applicant were too many. Therefore, in addition to the transfer adjustment from Rate Base of the 3 sites discussed earlier, staff proposed deletion of funds allocated to purchase 1 nonspecific well site each test year, thereby reducing the 1980, 1981, and 1982 budgets, respectively, by $16,500, $15,000, and $16,000. Looking next to the Structures budget, staff noted that normally it is small. In this proceeding nothing was argued to show that these test years would be other than normal. Accordingly, staff proposed to reduce the 1981 and 1982 Structures budgets by $13,000 and $15,000, respectively, to $3,000 and $3,500. Similarly, except for 1977 (and its unusual drought circumstances), since 1974 applicant had spent nothing for nonspecific wells. Absent unevidenced compelling need now, staff would delete the $9,100 and $10,300, respectively, budgeted for the 1981 and 1982 test years.

Turning next to proposed Advances for Construction, staff in making its analysis had access to 6 months of 1980 recorded data whereas applicant's estimates had been made at the beginning of 1980. Staff updated applicant's projections using the 1980 data, resulting, according to staff, in an estimate $147,900 lower for 1981, and $166,100 lower for 1982. Again, with respect to Contributions, staff had access to 6 months of later data, and applying this to applicant's data, concluded that contributions in 1981 and 1982 would be $3,300 higher each year than estimated by applicant.

Proceeding on with examination of the components which led to the differing rate base determinations arrived at by applicant and staff, we pass from the utility plant in service elements to the remaining components making up the average depreciated rate base.

Under Working Capital, applicant and staff agree on estimates for materials and supplies, and minimum bank cash deposits, but differ on working cash allowances. In estimating the latter, applicant used the "lead-lag" method, but staff used its own figures for revenues, expenses, and rate of return. The paucity of evidence introduced on the differing estimates makes analysis difficult. While, as will be seen, we adopted a higher rate of return than that staff contemplated, applicant agreed to accept staff's estimates of working cash allowances. The differences are small, with staff's estimates being $2,000 less for 1981 and $1,000 less for 1982.

In determining Adjustments to Utility Plant, applicant and staff agreed upon Reserves for Amortization of Intangibles and General Office Allocated Rate Base, but differed on Customer Advances for Construction and Contributions in Aid of Construction. Staff estimated lower advances in the test years. Applicant accepted these lower estimates and we have no reason to conclude otherwise. Accordingly, applicant's estimates of advances will be lowered by $199,800 in 1981 and $356,900 in 1982. Based on more recent data, staff estimated higher contributions for the test years, bringing its estimates closer to those of applicant for these years; however, staff's estimates, which applicant accepted, are $13,000 lower than applicant's for 1981, and $9,600 lower for 1982.

Finally, in computing estimated Weighted Average Depreciation Reserves, there are small differences between the determinations made by staff and applicant. Both used 1980 depreciation accrual rates and both used a factor of 0.513 percent for calculating the weighted average. Their differences derived out of differing underlying estimates of plant additions and contributions. In that applicant at the hearing accepted staff's determinations, and we earlier adopted staff's applicable estimates, we are here constrained to adopt staff's lower weighted average depreciation reserve estimates which result.

After the foregoing review we have found the above-described staff-sponsored adjustments to the test year Rate Base components to be reasonable and proper, and we will adopt them. Accordingly, applicant's estimated Rate Base figures for test years 1981 and 1982 are adjusted downward by $236,300 to $5,283,800, and by $269,100 to $5,563,700, respectively, as set forth in Table F.

Rate of Return

In Decision No. 97604 dated January 2, 1981, in Application No. 59660 (Bakersfield District), the Commission adopted as reasonable for the six companion districts[5/] of Cal-Water involved in the instant consolidated proceeding, rates of return of 10.89 percent, 11.08 percent, and 11.50 percent for the years 1981, 1982, and 1983, respectively. These rates of return are designed to hold return on common equity at 13.7 percent during that three-year period.

In that same decision, and equally applicable to the same six companion districts involved in the instant consolidated proceeding, the Commission determined that at this point in time Cal-Water's capitalization structure and general financial circumstances did not preclude reliance upon long-term debt financing through the test period for all financing anticipated herein, and found reasonable Cal-Water's estimate of 13.1 percent as the anticipated cost of such debt financing.

Since we discussed these subjects extensively in Decision No. 92604, it is not necessary to repeat that material here. It is

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5/ Applications for increases in rates for the Bakersfield, Stockton, Visalia, Chico-Hamilton City, Salinas, and San Mateo districts of Cal-Water were filed simultaneously on May 16, 1980, and were consolidated for hearing.

incorporated by reference. For immediate reference purposes, however, we attach Table D, a comparison of applicant's and staff's positions on rate of return, and Table E, our adopted rates of return, to show how our adopted rates of return for 1981, 1982, and 1983 were derived.

TABLE D

Rate Of Return Comparison

	Applicant			Staff*		
	Capital Ratio	Cost Factor	Wgt'd. Cost	Capital Ratio	Cost Factor	Wgt'd. Cost
1981						
Long-term debt	54.1%	9.32%	5.04%	50.0%	8.83%	4.42%
Preferred stock	4.3	6.50	.28	8.0	8.03	.64
Common stock	41.6	15.00	6.24	42.0	13.20	5.54
Total	100.0		11.56	100.0		10.60
1982						
Long-term debt	54.3	9.54	5.18	50.0	8.97	4.49
Preferred stock	4.0	6.46	.26	8.0	8.79	.70
Common stock	41.7	15.00	6.26	42.0	13.20	5.54
Total	100.0		11.70	100.0		10.73
1983						
Long-term debt	54.7	10.86	5.94	50.0	9.39	4.70
Preferred stock	3.7	6.42	.24	8.0	8.79	.70
Common stock	41.6	15.00	6.24	42.0	13.20	5.54
Total	100.0		12.42	100.0		10.94

*Staff assumed constant capitalization rates throughout the 3-year test period to allow step rates for financial attrition, based on an average for the 3 years.

TABLE E

Cal-Water Service Company - Adopted Rate of Return

Component	Capitalization Ratio	Cost Factor	Wgt'd. Cost	After Tax Interest Coverage
Average Year 1981				
Long-Term Debt	54.2%	9.07%	4.92%	2.21
Preferred Stock	4.2	6.50	.27	
Common Equity	41.6	13.70	5.70	
Total	100.0		10.89	
Average Year 1982				
Long-Term Debt	54.2	9.43	5.11	2.17
Preferred Stock	4.2	6.48	.27	
Common Equity	41.6	13.70	5.70	
Total	100.0		11.08	
Average Year 1983				
Long-Term Debt	54.2	10.20	5.53	2.08
Preferred Stock	4.2	6.44	.27	
Common Equity	41.6	13.70	5.70	
Total	100.0		11.50	

Assumptions:

(1) To allow undistorted step rates and provide for financial attrition, we assumed a constant capitalization ratio for the 3-year period; computing it as the average of each year's average.

(2) Average beginning and year-end capital costs were used.

(3) Financing through long-term debt at 13.1% in the 1981-1983 period.

(4) Return on common equity was held constant at 13.7%.

Authorized Revenue Increases

Table F, our adopted Summary of Earnings, follows. It reflects our resolution of the issues pertaining to operating revenues and expenses, and rate base. It also reflects the impact of external financing through use of long-term debt at 13.1 percent, and sets forth operating revenues which would be provided at present rates and those which will be required to produce the 13.7 percent rate of return on common equity we are authorizing for the test years.

TABLE F

Cal-Water Service Company - Visalia District

Adopted Summary of Earnings
(Dollars in Thousands)

	Test Year 1981	Test Year 1982
At Present Rates		
Operating Revenues	$ 1,832.3	$ 1,910.8
Operating Expenses		
Purchased Power	392.0	409.3
Payroll District	367.4	398.6
Other O & M	190.1	210.4
Other A & G and Misc.	25.1	25.6
Ad Valorem Taxes - District	77.3	84.2
Payroll Taxes - District	27.0	29.2
Business License	0.9	0.9
Depreciation	230.4	251.9
Ad Valorem Taxes - G.O.	1.1	1.2
Payroll Taxes - G.O.	5.3	5.6
Other Prorates - G.O.	202.8	219.5
Subtotal	1,519.4	1,636.4
Uncollectibles	4.8	5.0
Income Taxes Before ITC	(60.9)	(101.7)
Investment Tax Credit	(92.8)	(104.5)
Total Operating Expenses	1,370.5	1,435.2
Net Operating Revenues	461.8	475.6
Rate Base	5,283.8	5,563.7
Rate of Return	8.74%	8.55%

(Red Figure)

TABLE F - Contd.

Cal-Water Service Company - Visalia District

Adopted Summary of Earnings
(Dollars in Thousands)

	Test Year 1981	Test Year 1982
At Rate Levels Adopted		
Operating Revenues	$ 2,065.6	$ 2,200.0
Operating Expenses		
Subtotal	1,519.4	1,636.4
Uncollectibles	5.4	5.8
Income Taxes Before ITC	58.2	45.8
Investment Tax Credit	(92.8)	(104.5)
Total Operating Expenses	1,490.2	1,583.5
Net Operating Revenues	575.4	616.5
Rate Base	5,283.8	5,563.7
Rate of Return	10.89%	11.08%

(Red Figure)

Contrasting the operating revenues set forth in Table F, it is apparent that the rates of return which we are authorizing will produce additional gross revenues of $233,300 in 1981, an increase of 12.7 percent over the revenues which the existing rates would produce. In 1982 an additional $46,500 will be produced, an increase of 2.2 percent. These authorized increases also provide for increased power costs derived from the May 20, 1980 SoCal Edison increase. In conformity with our previously stated preference that districts of Class A water utilities not file general rate applications more frequently than once every three years, a third set of rates in the form of a step increase will be authorized for 1983 to allow for attrition, both operational and financial, after 1982. Following methodology used in our most recent decisions in similar applications (Decisions Nos. 92244 and 91537 in Cal-Water Livermore and

Southern Cal-Water Metropolitan, respectively, the operations component, as indicated by the decline in the rate of return at present rates from 8.74 percent in 1981 to 8.55 percent in 1982 (see Table F) is 0.19 percent. The financial component is represented by the difference of 0.42 percentage points between the rates of return we adopted (see Table D) for 1982 and 1983, respectively, i.e., 11.08 percent and 11.50 percent. To offset this combined 0.61 percent (0.19 percent + 0.42 percent) operational and financial attrition, we will authorize a 1983 step rate increase of $69,707.[6/]

On or after November 15 in the years 1981 and 1982, applicant will be authorized to file advice letters (with appropriate work papers) to justify implementation of the step rate increases herein postulated for each of these years. These supplemental filings will permit review of achieved rates of return before each step rate increase is authorized.

Table F and Appendix C will provide a basis for review of these future advice letter requests. The purchased power rate utilized is the composite SoCal Edison rate of 6.945 cents per kWh which became effective May 20, 1980. The composite effect of the assumed rates for purchased power is an average cost of $0.0565 per Ccf of water produced during 1981 and 1982. The Visalia District effective ad valorem tax rate is 0.804 percent of estimated beginning-of-year net plant plus materials and supplies. The corresponding effective rate for prorated general office ad valorem taxes is 1.109 percent of beginning-of-year net plant plus materials and supplies. The income tax rates are the current 9.6 percent state, and 46 percent (with intermediate steps) federal rates. The uncollectible rate used was 0.264 percent, and the net-to-gross multiplier was 2.0539.

Rate Design

In a rate proceeding after total revenue requirements have been determined, the next step must be to provide for equitable

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6/ Using the formula: Rate Base x Rate of Combined Attrition x Net-to-Gross Multiplier = Step Increase, we find: $5,563,700 x 0.61 x 2.0539 = $69,707.

distribution of the increases found necessary to the components making up the rate schedule. In the Visalia District, as of March 18, 1980 (the cutoff date used by both applicant and staff to determine the "present" rates to be used in their reports in this proceeding), the accumulated revenue increases authorized by the Commission since January 1, 1976 had increased rates a total of 12.95 percent. However, on July 2, 1980 by Resolution No. W-2671 the Commission authorized a further increase which brought the accumulation of increases in revenue since January 1, 1976 to 17.19 percent, an amount still within the so-called "lifeline" margin.

Both applicant and staff recommend keeping the existing general metered first quantity block rate and the existing service charge for the basic 5/8 x 3/4-inch meter unchanged until the total increase in revenue exceeds 25 percent.7/ However, both parties also recommend reduction of the first quantity block ("lifeline") from 0-5 Ccf to 0-3 Ccf. In the interest both of encouraging conservation at all levels of demand while still retaining a basic "lifeline" allowance, and in order to be able to generate the necessary revenues needed to operate the Visalia system, we agree to the proposals. They are consistent with recent Commission practice in numerous decisions.

Applicant further would change the commodity block structure of the General Metered service tariff from the existing 2-block structure to a 3-block structure, using the proposed 3rd block to embrace usage above 30,000 cu.ft. per month.8/ The reason advanced in support of this proposal was that establishment of this new rate block would ease the burden of further rate increases to large industrial and public authority customers who assertedly have borne a disproportionate share of recent rate increases.

Absent a comprehensive study which would show the potential impact as well as the individual groups and operations which would be affected, staff opposes a change at this time. We agree. For the present we will retain the 2-block structure.

7/ The accumulated revenue increases authorized since January 1, 1976 will pass 25 percent in Visalia in 1981.

8/ This three-block structure already exists in three of the districts involved in this proceeding: Salinas, San Mateo, and Stockton.

In order to bring about what it asserts would be a better balanced rate structure, applicant next proposed to increase service charge rates (except for the 5/8 x 3/4-inch meter) by a larger percentage than that it would make applicable to the commodity rates. It contends that as a consequence of the virtual freeze on the readiness to serve charges in recent years, with almost all the revenue increases being imposed in the commodity charges, revenue stability has gone to pot. Applicant argues that earnings are thereby distorted; that there is no true relationship to fixed costs which go on whether a customer uses zero water or uses 5,000 cu.ft. Given a situation where most of the revenues are tied to the commodity charge, and very little to the service charge, in a dry hot year, earnings will skyrocket. But in a drought year earnings plummet.

While we recognize the underlying merit inherent in applicant's assertions, we are more concerned with the need to bend every effort to bring about the maximum incentives to promote conservation. As the staff pointed out: if you do not give incentives to the customer, he is not likely to conserve. Conservation is one of our primary objectives in designing rates. We believe that the staff's proposal of spreading the increase percentagewise equally between the service charge and the commodity charge is more likely to achieve this objective than is applicant's proposal to increase the service charge twice as much as the commodity charge. We adopt the staff proposal.

In fairness it should be noted that applicant, while feeling itself obligated to state its position, also stated that it was willing to accept any rate design the Commission wishes to authorize as long as that design produces the revenue required to earn the authorized rate of return.

Neither applicant nor staff proposed any increase to be applicable for Public Fire Hydrant Service or Private Fire Protection Service.

Appendix A to this decision sets forth the rate structure approved to be made effective and applicable to the remainder of year 1981. Appendix B contains the step increases in rates authorized for future years. Since rates are very likely to be revised through advice letter offsets during the interim period ahead, it is doubtful that schedules for 1982 and 1983 predicated upon rates to be authorized for 1981 would be the correct rates at the time the step rate filing is to be made. Therefore, the increases contained in Appendix B can be added to the rates that would otherwise be effective on the date the step increase is to go into effect in order to develop the appropriate rates for filing.

Other Issues

Elimination of Private Fire Protection Rates: Following the January 25, 1979 hearing in Marysville during which the local fire chief recommended elimination of private sprinkler protection rates as a way to spur sprinkler installation,[9/] by Ordering Paragraph No. 4 in Decision No. 90491 dated July 3, 1979 in Application No. 58094, we directed applicant to prepare a study into the equity and advisability of such a step.

Applicant complied with this directive, submitting a short, but to the point, study, Exhibit 5 in the instant proceeding. Therein applicant noted that while there is some public benefit to be derived from private systems, the principal beneficiaries would be the owners or lessees of the specific private structures protected. They would obtain free service.

But someone must pick up the cost, small as it may be (depending on size and ownership the charge varies from $1.17 to $3.00 per month per inch of diameter of service). Although if passed

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9/ Interestingly, Marysville had no ordinance or building code regulations requiring fire sprinkler systems. It appears to us that a more appropriate and effective way to induce installations than by giving free fire sprinkler water service would be to adopt the Uniform Building Code and/or the Uniform Fire Code, which in appropriate circumstances would require such installations.

on to the general service customer, the additional charge would be small, ranging from 3 cents to 33 cents per month per customer, depending upon the nature (residential or industrial) of the service territory involved, equity does not justify general customers subsidizing private enterprise. Furthermore, current sprinkler water service charges are insignificant compared to the other considerations which determine the economic feasibility of installing sprinkler systems, namely installation costs and significant insurance savings.[10/]

As the study indicates, installation of sprinklers results in considerably lower fire insurance premiums. These savings are a much stronger incentive to install sprinklers than would be the elimination of charges for private fire protection service.

We conclude that it is equitable that private fire protection customers should continue to pay the present rates.

Wage and Price Standards: By Resolution No. M-4704 dated January 30, 1979, the Commission ordered all utilities requesting general rate increases to submit an exhibit to accompany their applications to show whether the requested increase complied with the voluntary Wage and Price Standards issued by the federal Wage and Price Stability Council. As is evidenced by Exhibit No. 6 to this proceeding, applicant complied. However, by Executive Order No. 12288 dated January 29, 1981, the President terminated the Wage and Price Regulatory Program. Therefore, the issue of compliance with wage and price standards is no longer cognizable in this proceeding.

Interim Relief Granted: The Commission's Regulatory Lag Plan for Water Utilities, adopted by Resolution No. M-4705 dated April 24, 1979 contemplated that final decisions on pending rate

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10/ Typical installations require from 8.1 to 13.2 years for the cumulative savings to pay for the investment, according to the study. Elimination of charges to the owner or lessee would shorten this period only to a range of 7.9 to 12.2 years.

matters would be issued within specified time limits. In instances where the time limits of the plan must be exceeded, the Commission may issue an interim order granting partial rate relief. In the instant proceeding the time limit for a decision was exceeded. Accordingly, by Decision No. 92716 issued February 18, 1981, an interim order provided, inter alia, that Cal-Water could immediately institute a partial rate increase to produce additional revenues of $201,000 (a 10.73 percent increase) and a rate of return of 10.89 percent on rate base in the Visalia District, pending our final order in this proceeding.

Effective Date of this Order: The rates of return found reasonable in this matter were determined and based upon the effect of the rate increase for full year 1981. To preserve as much of that effect as possible, as noted above, interim relief was granted. However, this interim relief provided only 10.7 of the 12.7 percent this final order authorizes. Accordingly, in order to retain as much of the full year effect of the full increase as possible, and since the only active participants to this proceeding are applicant and the Commission staff, the resulting final order contained herein should be effective on the date of signature.

Findings of Fact

1. Applicant's service territory is efficiently served with satisfactory results, and the water quality is satisfactory.

2. Applicant's conservation program is satisfactory. Its pump efficiency program meets or exceeds standards.

3. Applicant requires additional revenues, but the rates it proposes would produce an unjustified rate of return.

4. The Operating Revenue and Operating Expense estimates adopted for the test years were updated (1) to include the 3.7 percent offset increase authorized by Commission Resolution No. W-2671 dated July 2, 1980, and (2) provided for the increase in purchased power costs arising from the SoCal Edison increase made effective May 20, 1980.

5. Staff projections of the anticipated number of services, except for the estimated number of Flat Rate Commercial Class services in test years 1981 and 1982, and of anticipated per service consumption for all classes, insofar as they differ from those of applicant, are the more reasonable and should be adopted.

6. Applicant's revised estimates of the number of Flat Rate Commercial Class services for 1980, 1981, and 1982, being based upon later data and more recent economic conditions, were more reasonable than staff's estimates. Accordingly, applicant's estimates, revised at the hearing, should be adopted.

7. Staff's estimates of Public Authority water consumption per service are more reasonable than applicant's and should be adopted over those of applicant.

8. Applicant's proposal to expand its present holdings of prospective well sites during the test period to a total of 14 is too ambitious and would result in excessive holdings considering indicated near-term reasonable requirements. Accordingly, staff's proposals (1) to transfer 3 presently held undeveloped well sites from Rate Base to Land Held for Future Use, and (2) to delete funds allocated to purchase 1 nonspecific well site in each year 1980, 1981, and 1982 (this latter proposal accepted by applicant) should be adopted.

9. Similarly, staff proposals, as accepted by applicant, to reduce applicant's structures and well construction budgets in 1981 and 1982, as well as to delete $102,800 in carryover funds from the 1980 budget, should be adopted.

10. Staff's estimates of Rate Base at $5,283,800 for 1981 (totaling $236,300 less than applicant's) and $5,563,700 for 1982 (totaling $730,900 less than applicant's) are reasonable and should be adopted.

11. The adopted estimates of operating revenues, operating expenses, and rate base for the test years 1981 and 1982, and a decline of 0.19 percent in rate of return into 1983 as a consequence of

operational attrition at the present authorized rate level reasonably indicates the results of applicant's operations in the immediate future.

12. At this point in time applicant's capitalization structure and general financial circumstances do not preclude reliance upon long-term financing through the test period for all financing anticipated herein.

13. Applicant's estimate of 13.1 percent as the anticipated cost of such debt financing is reasonable.

14. Rates of return of 10.89, 11.08, and 11.50 percent, respectively, on applicant's rate base for 1981, 1982, and 1983 are reasonable. The related return on common equity each year is 13.7 percent. This will require an increase of $232,300, or 12.7 percent in annual revenues for 1981, a further increase of $46,500, or 2.2 percent in 1982, and a further increase of $69,707, or 3.17 percent in 1983.

15. The adopted rate design is reasonable.

16. 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.

17. The further 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 12 months ended September 30, 1981 and/or September 30, 1982, exceed the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision, or (b) 10.89 percent for 1981 and 11.08 percent for 1982.

18. Applicant's private fire protection service rates do not act as a deterrent to the installation of fire sprinkler systems in private buildings, and it would be neither equitable nor reasonable to eliminate all private fire protection service rates with the resulting transfer in costs to applicant's general service customers.

19. The revenues authorized herein, pursuant to provisions of Commission Resolution No. L-213, incorporate the present public fire protection surcharges offsetting loss of fire hydrant revenues. No refund is necessary.

Conclusions of Law

1. The application should be granted to the extent provided by the following order, the adopted rates being just, reasonable, and nondiscriminatory.

2. The effective date of the following order should be the date of signature since there is an immediate need for the rate increase.

FINAL ORDER

IT IS ORDERED that:

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

2. On or after November 15, 1981 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B and referenced Effective Date 1-1-82, or to file a lesser increase which includes a uniform cents per hundred cu.ft. of water adjustment from Appendix B in the event that the Visalia 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, 1981, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 10.89 percent. Such filing shall comply with General Order No. 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective.

The effective date of the revised schedule shall be no earlier than January 1, 1982, or thirty days after the filing of the step rate, whichever is later. The revised schedule shall apply to service rendered on and after the effective date thereof.

3. On or after November 15, 1982 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B, and referenced Effective Date 1-1-83, or to file a lesser increase which includes a uniform cents per hundred cu.ft. of water adjustment from Appendix B in the event that the Visalia 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, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 11.08 percent. Such filing shall comply with General Order No. 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective.

The effective date of the revised schedule shall be no earlier than January 1, 1983, or thirty days after the filing of the step rates, whichever is 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 APR 7 1981, at San Francisco, California.

President

Commissioners

SCHEDULE NO. VS-1

Visalia Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

Service Charge:	Per Meter Per Month
For 5/8 x 3/4-inch meter	$ 2.80
For 3/4-inch meter	3.80
For 1-inch meter	5.30
For 1½-inch meter	7.45
For 2-inch meter	9.60
For 3-inch meter	18.00
For 4-inch meter	24.00
For 6-inch meter	40.00
For 8-inch meter	60.00
For 10-inch meter	75.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	$ 0.167
For all over 300 cu.ft., per 100 cu.ft.	0.211

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.

SCHEDULE NO. VS-2R

Visalia Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

	Per Service Connection Per Month
For a single-family residential unit, including premises having the following areas:	
6,000 sq.ft. or less	$ 6.50
6,001 to 10,000 sq.ft.	8.65
10,001 to 16,000 sq.ft.	10.60
16,001 to 25,000 sq.ft.	13.30
For each additional single-family residential unit on the same premises and served from the same service connection	5.30

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.

2. All service not covered by the above classifications shall be furnished only on a metered basis.

3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. VS-1, General Metered Service.

APPENDIX B

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 rate which would otherwise be in effect on that date.

	Effective Dates	
	1-1-82	1-1-83
Service Charge (Per Meter Per Month)		
For 5/8 x 3/4-inch meter	$ 0.05	$ 0.10
For 3/4-inch meter	0.10	0.10
For 1-inch meter	0.10	0.15
For 1½-inch meter	0.15	0.20
For 2-inch meter	0.30	0.30
For 3-inch meter	1.00	1.00
For 4-inch meter	1.00	1.00
For 6-inch meter	1.00	1.00
For 8-inch meter	2.00	2.00
For 10-inch meter	2.00	2.00
Quantity Rates:		
For first 300 cu.ft., per 100 cu.ft.	0.003	0.004
For all over 300 cu.ft., per 100 cu.ft.	0.004	0.007
Flat Rates:		
6,000 sq.ft. or less	0.15	0.20
6,001 to 10,000 sq.ft.	0.20	0.30
10,001 to 16,000 sq.ft.	0.20	0.30
16,001 to 25,000 sq.ft.	0.30	0.40
Additional Single-Family Residential Unit on the same premises and served from the same service connection	0.10	0.20

ADOPTED QUANTITIES

Company: California Water Service Co.
District: Visalia

	1981 KCcf	1982 KCcf		
1. Water Production:	6,937.6	7,244.1		
Wells:	6,937.6	7,244.1		
2. Electric Power:	0.8135 KWh per Ccf	Supplier: SCE	Date:	8-28-80
KWh:	5,643,800	5,893,200		
Cost:	$ 392,000	$ 409,300		
Cost per KWh:	$ 0.06945	$ 0.06945		
3. Ad Valorem Taxes:	$ 78,400	$ 85,400		
Tax Rate:	0.804%	0.804%		

4. Net-to-Gross Multiplier: 2.0539

5. Local Franchise Tax Rate: N.A.

6. Uncollectible Rate: 0.264%

7. Metered Water Sales:

	Range-Ccf	Usage-Ccf 1981	Usage-Ccf 1982
Block 1 (Lifeline)	0-3	106,450	113,746
2	>3	1,788,150	1,912,454
Total Usage		1,894,600	2,026,200

ADOPTED QUANTITIES

8. Number of Services:

	Avg. No. of Services		Usage-KCcf		Avg. Usage-Ccf/yr.	
	1981	1982	1981	1982	1981	1982
Commercial-Metered	3,076	3,291	1,676.1	1,803.8	544.9	548.1
Commercial-Flat	13,429	13,879	4,488.0	4,638.4	334.2	334.2
Industrial	13	13	50.2	50.2	3,861.5	3,861.5
Public Authority	146	150	143.6	147.5	983.6	983.3
Other	10	10	24.7	24.7	2,470.0	2,470.0
Subtotal	16,674	17,343				
Private Fire Prt.	103	110				
Public Fire Prt.	13	13				
Total	16,790	17,466				
Water Loss 8%			555.0	579.5		
Total Water Produced			6,937.6	7,244.1		

9. Flat Rate Services:

		No. of Services	
		1981	1982
Block 1	6,000 sq.ft. or less	1,051	1,086
Block 2	6,001 to 10,000 sq.ft.	9,300	9,612
Block 3	10,001 to 16,000 sq.ft.	2,482	2,565
Block 4	16,001 to 25,000 sq.ft.	596	616
For each additional residential unit		149	134

10. Revenue (M$)

	1981	1982	1983
Metered	$ 584.7	$ 622.8	$ 642.7
Flat	1,466.5	1,562.0	1,611.8
Fire Protection	14.4	15.2	15.2
Total	2,065.6	2,200.0	2,269.7

11. Attrition (1982 to 1983)

Operational	0.19%
Financial	0.42
Total	0.61%

12. 1983 revenue increase (based on 1982 rate base): $69,700

INCOME TAX CALCULATION

Item	1981	1982
State Franchise Tax		
Operating Revenue	$2,065.6	$2,200.0
Expenses		
O&M	1,189.2	1,276.0
Taxes Other Than Income	105.2	114.3
Subtotal	1,294.4	1,390.3
Deductions & Adjustments		
Transportation Depr. Adj.	(11.7)	(13.0)
G.O. Depr. Adj.	(3.0)	(3.0)
Soc. Sec. Taxes Capitalized	5.3	5.7
Interest	259.1	283.4
Subtotal Deduction	249.7	273.1
State Tax Depreciation	409.1	449.8
Net Taxable Revenue	112.4	86.8
CCFT at 9.6%	10.8	8.3
Federal Income Tax		
Operating Revenue	2,065.6	2,200.0
Expenses	1,294.4	1,390.3
Deductions	249.7	273.1
FIT Depreciation	403.9	444.2
Preferred Stock Div. Cr.	1.6	1.6
State Income Tax	10.8	8.3
Taxable Revenue	105.2	82.5
FIT at 46%	48.5	38.0
Graduated Tax Adj.	(0.7)	(0.7)
Adj. for Invol. Conver.	(0.4)	(0.4)
Investment Tax Credit	(92.8)	(104.5)
FIT	(45.4)	(67.6)

(Red Figure)