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Decision 93983 MAY 19 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| 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 San Mateo District. | Application 59663 (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 last of six in this consolidated rate proceeding, California Water Service Company (Cal-Water), sought annual step rate increases over the 1981-1983 period of $344,400 (7.7%), $146,700 (3.0%), and $141,400 (2.8%), respectively, for its San Mateo District.

In that 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 (D.) 92716 on February 18, 1981 granted interim relief in the amount of $82,300 (1.75%).

By this final opinion we find reasonable and authorize a rate of return of 10.89%, 11.08%, and 11.50%, respectively, on rate base for 1981, 1982, and 1983, with the related rate of return on common equity remaining constant at 13.7%. These returns (which include the February 1981 interim increase) require an increase in annual revenues for the San Mateo District of $156,200 (3.41%) in 1981, a further increase of $154,200 (3.21%) in 1982, and a further increase of $200,500 (4.05%) in 1983.

We further find that Cal-Water's capitalization structure and general financial considerations permit reliance upon long-term financing to meet external capital needs during the test period, needs approximating $43 million. The Commission accepted as reasonable Cal-Water's estimate of 13.1% as the anticipated cost of such debt.

District issues were resolved by our adoption of Cal-Water's estimate of consumption per average commercial class service for each test year and adoption of our own estimate for each test year of total consumption for the public authority class. In a number of other instances where there were initial differences between Cal-Water and staff, Cal-Water, with one exception, adopted staff's proposals. In that one exception, staff adopted Cal-Water's estimates. Except for some small changes, necessitated by resolution of other issues, we adopted the final results agreed upon by the parties.

The increases in rates and charges will be spread equally to service charges and quantity rates. In that the 25% lifeline cap has already been exceeded, lifeline rates will share equally with all other rates in the increases.

## 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 (PU) 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 San Mateo District, seeking authority to increase its rates. In order to minimize the adverse effects of anticipated operational and financial attrition upon the company, Cal-Water proposed annual step increases over the next three years.

In the San Mateo District these step increases would increase annual gross revenues over those in effect at the time this application was filed by $344,400 (7.7%) in 1981, by an additional amount of $146,700 (3.0%) in 1982, and by $141,400 (2.8%) in 1983.

Pursuant to provisions of the Commission's Regulatory Lag Plan (adopted by Commission Resolution 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 Wednesday evening, July 16, 1980, at 7:30 p.m. in the Council Chambers of the San Mateo City Hall. One customer appeared who expressed no complaint about service. 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, Cal-Water 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 Cal-Water 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

Cal-Water's San Mateo District includes the City of San Mateo and adjacent unincorporated areas of San Mateo County. The population estimated to be served is over 99,100. Service is rendered through 23,998 service connections located at elevations varying from near sea level to about 630 feet above sea level. The entire water supply is purchased from the San Francisco Water Department. In 1979 almost 4.1 billion gallons were purchased; and 32 electrically powered booster pumps, automatically controlled, convey the water from five delivery connections through 245.8 miles of main (up to 24 inches in diameter) to storage facilities capable of holding approximately 14.5 million gallons, and directly to the customers. All services other than fire protection are metered.

During 1979 Cal-Water logged 321 customer complaints; over 60 percent pertaining to leaks. During the first four months of 1980 there were another 140 complaints. According to our staff's investigation these complaints were resolved by the utility within a reasonable time after notification. Judging from the nature of the complaints and the lack of response to this application, it would appear that service in this district is satisfactory.

### Conservation

Cal-Water 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[1/] 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. Twice during 1979 the backside of each recycled billing

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1/ The San Mateo District during the drought period gave away more conservation kits than there were customers in the district.

envelope featured a conservation message; for example, a hand on a faucet turning off dripping water with the message, "Do a good turn." In San Mateo it is evident from 1979 sales levels that conservation practices initiated during the 1977 water-rationing program are still affecting sales, although to a lesser extent than in 1978.

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 D.88466 dated February 7, 1978, in Case 10114.

Present and Proposed Rates

The San Mateo District in 1979 served an average of 23,748 residential and business (commercial class) services, 14 industrial, and 223 public authority services on its metered schedules, and 1,968 public and private fire protection services on its flat rate schedule.

The last general rate increase for this district was authorized by D.89111 dated July 25, 1978, in Application 57331. In addition, two advice letter offset increases, two rate increases, and two advice letter decreases have been authorized. The rates in effect at time of filing this application became effective March 4, 1980 by Resolution W-2596.[2/] By the instant application the utility proposes to raise its rates for general metered service.

A comparison of present general metered service rates (updated to reflect the June 3, 1980 offset increase - see footnote 1) and company-proposed rates follows:

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2/ Since filing this application, Cal-Water received authority (effective June 3, 1980) by Resolution W-2652 (Advice Letter 733) to increase its rates approximately $53,800 (1.3%) to offset purchased power cost increases resulting from PG&E's April 29, 1980 rate increase, a balancing account adjustment, and changes in ad valorem taxes.

TABLE A

Cal-Water Service Company - San Mateo District
Comparison of Monthly Rates - Present and Proposed

| General Metered Service | Present*# Rates | Proposed Rates 1981 | 1982 | 1983 |
|---|---|---|---|---|
| Service Charge: | | | | |
| For 5/8 x 3/4-inch meter | $ 2.53 | $ 2.72 | $ 2.80 | $ 2.88 |
| For 3/4-inch meter | 3.20 | 4.50 | 4.75 | 5.00 |
| For 1-inch meter | 4.23 | 6.10 | 6.50 | 6.90 |
| For 1 1/2-inch meter | 5.95 | 8.60 | 9.10 | 9.75 |
| For 2-inch meter | 7.67 | 11.00 | 11.70 | 12.75 |
| For 3-inch meter | 15.56 | 20.00 | 21.00 | 22.00 |
| For 4-inch meter | 20.75 | 28.00 | 30.00 | 32.00 |
| For 6-inch meter | 32.18 | 46.00 | 49.00 | 51.00 |
| For 8-inch meter | 47.75 | 69.00 | 73.00 | 77.00 |
| For 10-inch meter | 60.24 | 85.00 | 90.00 | 95.00 |
| Quantity Rates: | | | | |
| For the first 300 cu.ft., per 100 cu.ft. | $ .561 | $ .603 | $ .620 | $ .637 |
| For the next 29,700 cu.ft., per 100 cu.ft. | .737 | .771 | .791 | .810 |
| For the next 30,000 cu.ft., per 100 cu.ft. | .689 | .708 | .725 | .734 |

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.

# Service charge rates include Fire Protection Revenue Loss Surcharge.

* From Tariff Sheet 2471-W, effective June 3, 1980.

Under Cal-Water's proposed rates, an average metered commercial (business and residential) customer with a 5/8 x 3/4-inch meter using 1,700 cu.ft. of water per month, would have his monthly bill increased $.79 (5.4%) in 1981, $1.20 (8.3%) in 1982, and $1.60 (11.0%) in 1983. An average metered industrial customer with a 2-inch meter, using 20,000 cu.ft. of water per month, would have his monthly bill increased $10.16 (6.6%) in 1981, $14.85 (9.6%) in 1982, and $19.69 (12.7%) in 1983.

Results of Operations

As part of its application Cal-Water submitted summaries of operating revenues and expenses incurred in the San Mateo District for the five-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 Cal-Water's application, as changes occurred, instead of amending the estimated summaries of earnings each time, Cal-Water 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, when staff's exhibits were filed, in some instances they varied from Cal-Water's. In part, this is because they may be based on later information; in other cases it is because Cal-Water and staff did not agree on underlying elements going into the estimates.

Cal-Water checked staff's exhibits where they varied from its own and considered them. In many instances, particularly where there was little impact, Cal-Water took no issue and adopted staff's proposed adjustments. In other instances, while not agreeing with staff but desiring to expedite the proceeding, Cal-Water elected not to contest the differences. However, in two instances where the impact was deemed significant, Cal-Water could not willingly accept staff's adjustments and put them into issue for our resolution. These

relate to staff's proposed adjustments for commercial and public authority metered sales. Another staff-proposed adjustment involving advances for a large subdivision project was dropped by staff during the hearing.

Table B, which follows, sets forth the summaries of earnings initially proposed by each party, based on rates in effect March 4, 1980.

TABLE B

Cal-Water Service Company - San Mateo District
Comparison - Applicant & Staff - Original Summary of Earnings
(Dollars in Thousands)

| Items | Test Year 1981 | | Test Year 1982 | |
|---|---|---|---|---|
| | Applicant | Staff | Applicant | Staff |
| **Present Rates** | | | | |
| Operating Revenues | $ 4,503.7 | $ 4,651.5 | $ 4,564.3 | $ 4,719.9 |
| Operating Expenses | | | | |
| Purchased Power | 101.3 | 105.3 | 102.7 | 107.0 |
| Purchased Water | 1,645.5 | 1,709.8 | 1,670.5 | 1,737.6 |
| Payroll-District | 432.8 | 432.8 | 469.5 | 469.5 |
| Other Oper. & Maint. | 290.9 | 290.9 | 317.4 | 317.4 |
| Other Admin. & Genl. & Misc. | 33.4 | 33.4 | 35.2 | 35.2 |
| Ad Valorem Taxes - Dist. | 107.6 | 107.6 | 114.9 | 114.7 |
| Payroll Taxes - Dist. | 31.8 | 31.8 | 34.5 | 34.5 |
| Business License | 20.0 | 20.0 | 20.0 | 20.0 |
| Depreciation | 294.6 | 291.9 | 308.8 | 307.1 |
| Ad Valorem Taxes-G.O. | 1.9 | 1.9 | 1.9 | 1.9 |
| Payroll Taxes-G.O. | 8.6 | 8.6 | 9.3 | 9.3 |
| Other Prorates-G.O. | 338.2 | 333.7 | 366.1 | 361.0 |
| Subtotal | 3,306.6 | 3,367.5 | 3,450.8 | 3,515.2 |
| Uncollectibles | 8.8 | 9.1 | 8.9 | 9.2 |
| Income Taxes Before ITC | 239.5 | 308.9 | 174.3 | 249.8 |
| Investment Tax Credit | (86.2) | (86.2) | (89.9) | (89.9) |
| Total Oper. Expenses | 3,468.7 | 3,599.3 | 3,544.1 | 3,684.3 |
| Net Operating Revenues | 1,035.0 | 1,052.2 | 1,020.2 | 1,035.6 |
| Rate Base | 10,503.9 | 10,411.7 | 10,919.9 | 10,847.6 |
| Rate of Return | 9.85% | 10.11% | 9.34% | 9.55% |
| **Proposed Rates** | | | | |
| Operating Revenues | 4,848.1 | 5,002.2 | 5,058.9 | 5,226.1 |
| Operating Expenses | | | | |
| Subtotal | 3,306.6 | 3,367.5 | 3,450.8 | 3,515.2 |
| Uncollectibles | 9.5 | 9.8 | 9.9 | 10.2 |
| Income Taxes Before ITC | 415.4 | 488.1 | 427.0 | 508.4 |
| Investment Tax Credit | (86.2) | (86.2) | (89.9) | (89.9) |
| Total Oper. Expenses | 3,645.3 | 3,779.2 | 3,797.8 | 3,943.9 |
| Net Operating Revenues | 1,202.8 | 1,223.0 | 1,261.1 | 1,282.2 |
| Rate Base | 10,503.9 | 10,411.7 | 10,919.9 | 10,847.6 |
| Rate of Return | 11.45% | 11.75% | 11.55% | 11.82% |

(Red Figure)

In reviewing the estimates underlying these summaries, and the adjustments proposed by staff and adopted by Cal-Water, and in resolving the issues remaining between Cal-Water and staff at conclusion of the hearing, we will consider each component to the summaries in turn.

Estimates of Operating Revenues

In this instance the two most significant factors underlying revenue estimates are the estimates of the number of customers in a class and water consumption per service for that class. Looking first to the commercial metered class (residential and business customers), we see that while staff accepts Cal-Water's estimates of the average number of services to be anticipated each test year, it does not agree with Cal-Water on the consumption per average service to be anticipated each test year. Staff's estimates of consumption are substantially higher than Cal-Water's. Consumption per average service, plotted out on a graph for the period 1970 through 1976, produces a slowly declining trend line, but the average consumption in 1977 was down from 1976 by nearly 35%, and for 1978 and 1979, while rising significantly, had not returned to the pre-drought level. Therefore, the big issue is a judgmental one of how much residual conservation there will be in 1981 and 1982. Use of the "Modified Bean Method" seems inappropriate here because of usage changes since the big drought which hit San Mateo District hard. The decline in consumption is due more to conservation than to weather conditions since the drought.

In making its projections, Cal-Water assumed that the conservation ethic in San Mateo is well-established and that the residual conservation which occurred in 1978 and 1979 would continue, but at an ever-decreasing rate. It did not, furthermore, expect per customer sales to return to pre-drought levels during the test period. Accordingly, it used recorded data to estimate that test period sales would continue to increase at an ever-declining rate of 50% of the previous year's increase, and arrived at a sales per average customer of 204.5 Ccf for 1981 and 206.3 Ccf for 1982.

On the other hand, staff used coefficients obtained from the normalized consumption trend line developed for pre-drought years 1970 through 1976, to extrapolate the 1976 to 1979 recorded data, applying a residual conservation factor (derived from staff's experience in Cal-Water's Monterey District) of roughly 2%, to arrive at an estimate of sales per average customer of 212 Ccf for 1981 and 214 Ccf for 1982.

Apart from the questionable appropriateness of applying a residual conservation factor drawn from a district so disparate from San Mateo as Monterey, at least in the absence of some evidence with reference to similarity of climate, or use patterns, or of type of customers, we have further difficulty in ignoring completely the pattern of sales increases since the 1977 drought. That pattern shows an increase in sales per customer each year of about half the increase of the following year.[3/] Cal-Water cast this pattern and projected it as follows to reach its estimate:

| | | |
|---|---|---|
| 1977 | 149.8 Ccf | ) |
| 1978 | 178.7 Ccf, an increase of 29.9 Ccf) | Recorded |
| 1979 | 193.4 Ccf, an increase of 14.7 Ccf) | |
| 1980 | 200.8 Ccf, an increase of 7.4 Ccf) | |
| 1981 | 204.5 Ccf, an increase of 3.7 Ccf) | Projection |
| 1982 | 206.3 Ccf, an increase of 1.8 Ccf) | |

We note that the San Mateo District during the 1977 drought period achieved conservation of 40 to 45% when the mandatory rationing program (imposed by the San Francisco Water Department) basically held the customers to 75% of comparable usage in the 1976 billing periods. We are aware that the conservation ethic has had a pronounced residual effect since 1977. We recall that Cal-Water distributed a very large number of conservation kits and is still promoting conservation. We heard mention of lawns in the district being converted to colored rock

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3/ In addition, the 6-month increase between December 1979 and June 1980 of 4.9 Ccf per service (198.3 less 193.4 = 4.9) is exactly half the increase in the corresponding period between December 1978 and June 1979 (188.4 less 178.6 = 9.8 Ccf).

landscaping. It would also appear that price elasticity is beginning to take effect. From the above we tend to agree with Cal-Water that residual conservation still has a way to go before being exhausted. The most recent 1980 recorded data tends to support the declining percentage approach taken by Cal-Water. In the absence of the applicability of any empirical formula, we will adopt Cal-Water's estimates of consumption for the test years.

The differences between Cal-Water and staff consumption estimates for industrial class revenues in the test years are a result of different methodology. Staff projected the approximate 30 Ccf per service increase from 1978 to 1979 to attain its estimate of 940 Ccf for 1981 and 970 Ccf for 1982 (per service). It also projected addition of one and two new services, respectively, in the test years, basing the projection on a review of the additions made between 1976 and 1979, inclusive. Cal-Water had assumed no new services and had merely trended total class sales as recorded 1977 through 1979. At the hearing Cal-Water accepted staff's estimate as do we.

We turn next to the disputed public authority metered class estimates. We note that long-term (1970-1979) consumption per average service has been trending downward. Apart from 1976 and 1977, the trend line was smooth. In 1976, consumption spurted upward, only to plunge below the trend line in 1977. With 1978 and 1979, at 1150.9 Ccf and 1139.0 Ccf, respectively, the trend line was resumed.

Cal-Water, following the slightly downward trend line, projected per service consumption of 1126.4 Ccf for 1981 and 1125.2 Ccf for 1982. Cal-Water also projected on a decreasing scale the rate of acquisition of new services to forecast 231 average services for 1981 and 234 for 1982. Therefore, Cal-Water estimates total consumption for the public authority class at 260.2 KCcf (1126.4 x 231) for 1981, and 263.3 KCcf (1125.2 x 234) for 1982.

Contrasted to this, and influenced strongly by additional later data on total consumption through August 1980, staff estimated average service consumption of 1190 Ccf for 1981 and 1200 Ccf for 1982. Staff also projected a more accelerated rate of acquisition of new

average services than did Cal-Water, forecasting 237 average services for 1981 and 241 for 1982. Therefore, in its turn staff estimates total consumption for the public authority class at 282.0 KCcf (1190 x 237) for 1981, and 289.2 KCcf (1200 x 241) for 1982.

Considering prevailing economic conditions, we find staff's estimates of the number of average services to be anticipated in 1981 and 1982 to be too high. Staff has accelerated the pace of acquisition in possible implication from economic conditions, but without substantiation on the record. We find Cal-Water's declining rate of acquisition estimate to be the more persuasive. Following is an analysis of the respective positions of the parties:

| Year | Staff | (Change) | Recorded | (Change) | Applicant | (Change) | |
|---|---|---|---|---|---|---|---|
| 1982 | 241 | +4 | | | 234 | +3 | ) |
| 1981 | 237 | +7 | | | 231 | +4 | ) Esti- |
| 1980 | 230 | +7 | | | 228 | +5 | ) mated |
| 1979 | | | 223 | +5 | | | ) |
| 1978 | | | 218 | +5 | | | ) Re- |
| 1977 | | | 213 | +6 | | | )corded |
| 1976 | | | 207 | | | | ) |

It is far more difficult from the paucity of data presented to analyze and make projections applicable to consumption per average service; however, we do know that 1979 per service figures were only a shade below those for 1978, thereby bending the trendline above its 1970-1978 (excluding 1976 and 1977) long-term downward slope, and indicating a flattening if not upward turn. If we factor out the five largest public authority services (three schools, hospital, and county building) the curve has definitely bottomed out and is ascending. In addition, the 1980 later recorded data through August show a decided upward turn in total consumption for the class. All this leads us to conclude that the correct total consumption for the public authority class tends to fall somewhere between the respective estimates of the parties. Adopting staff's estimates of consumption per average service, and applying to them Cal Water's estimates of the number of average services to be anticipated we obtain the following:

1981: 1190 Ccf/service x 231 average number services = 274.9 KCcf.

1982: 1200 Ccf/service x 234 average number services = 280.8 KCcf.

We conclude that these total consumption estimates for the test years are a reasonable indication of what consumption will be for the public authority class, and adopt them.

Applying present rates to the respective above stated sales estimates for each class of service and totaling these, we obtain the operating revenues we adopt for 1981 and 1982 test years, as set forth in Table E, 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 Cal-Water'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 Cal-Water's general office estimates reasonable. The adjustments were to the general office insurance, office supply, and pension expense estimates. Staff also verified that the San Mateo District's share was properly allocated to the district in accordance with standard four-factor proration procedures accepted by this Commission. Cal-Water agreed to the staff adjustments and made appropriate adjustment to its operating expense estimates at the hearing.

Turning next to the area of the district's own operating expenses, we see that staff analyzed the utility's report, supporting work papers and methods of estimating operation and maintenance expenses, administrative and general expenses, utility plant additions

and depreciation expense as well as taxes, etc. In most instances it found Cal-Water's estimates reasonable and these we adopt. However, certain of the expenses derive from underlying estimates of water sales; and since Cal-Water and staff disagreed on total consumption, they arrived at differing estimates for those other expenses that derive from the water sales volume. For example, the cost of purchased power depends upon the amount of power required to boost water to higher elevations; the more water to be moved, the more power needed. The cost of water depends upon the amount which must be purchased from San Francisco to meet estimated demand. Ad valorem taxes depend upon the amount of property held by the district. Depreciation expense depends upon the plant and allowed additions. Uncollectibles are a percentage of gross revenue. Taxes depend upon income and financing consequences. In the instant proceeding we need not analyze the differences in estimates once we know that the differences arise out of underlying total water demand, plant additions, and method of financing rather than content or methodology. Because we have determined water demands that differ from either Cal-Water or staff, our estimates of purchased power and water must necessarily differ.

First, as to purchased water: Summarizing the estimates of total consumption, class by class, as estimated by Cal-Water, staff, and ourselves, we obtain the following:

| | KCCF per Test Year 1981 | | | KCCF per Test Year 1982 | | |
|---|---|---|---|---|---|---|
| Class | Adopted | Cal-Water | Staff | Adopted | Cal-Water | Staff |
| Commercial | 4,915.8 | 4,915.8 | 5,096.1 | 4,989.0 | 4,989.0 | 5,175.2 |
| Industrial | 15.0 | 13.7 | 15.0 | 16.5 | 14.5 | 16.5 |
| Public Authority | 274.9 | 260.2 | 282.0 | 280.8 | 263.3 | 289.2 |
| Other | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 |
| | 5,214.6 | 5,198.6 | 5,402.0 | 5,295.2 | 5,275.7 | 5,489.8 |
| Unaccounted For | 631.4 | 632.0 | 656.8 | 641.1 | 641.4 | 667.5 |
| Purchased Water | 5,846.0 | 5,830.6 | 6,058.8 | 5,936.3 | 5,917.1 | 6,157.3 |

At an average cost of $0.2822 per Ccf, in 1981, 5,846.0 KCcf of water will cost $1,649,700, and in 1982, 5,936.3 KCcf of water will cost $1,675,200.

Next, we look at the cost of purchased power: In this district, 0.2905 kWh of electric power is required for each Ccf water purchased. The present electric power rates for Pacific Gas and Electric Company (PG&E) were made effective on April 29, 1980. Based on these rates, staff estimates the cost per kWh of power to be $0.07319. Accordingly, our purchased power cost for test year 1981 is estimated to be $124,300 for 1981 and $126,200 for 1982 (1981: 5,846.0 Ccf x 0.2905 = 1,698,500 kWh x $0.07319 = $124,300; and 1982: 5,936.3 Ccf x 0.2905 = 1,724,800 kWh x $0.7319 = $126,200).

Ad valorem taxes generally vary with the three factors of net utility plant plus materials and supplies, assessment ratio, and tax rate. Computations are made for a fiscal year using the tax rate of 0.905 and the beginning of year net plant and materials and supplies. Here the ad valorem taxes for 1981 work out to $106,500 for test year 1981, and $113,900 for test year 1982.

Staff originally estimated depreciation expense for each test year slightly lower than did Cal-Water. Both parties essentially used the same methodology and the small differences were due to differing estimates of plant additions, advances (including the timing of a carryover involving unspent advances on Sugarloaf III, a real estate development) and contributions. For both years, as discussed under rate base, staff's estimates of additional advances were lower than Cal-Water's, and staff's estimates of contributions were higher than Cal-Water's. In addition, for 1982 staff proposed to delete a company-funded carport. At the hearing Cal-Water accepted staff's adjustments and in return, staff, after receiving confirmation of cancellation or deferment for now of Sugarloaf III, dropped objections to Cal-Water's proposed unspent advances carry-over each test year. Therefore, we adopted Cal-Water's adjusted depreciation expense estimates of $287,600 for 1981 and $307,100 for 1982.

Differing estimates of uncollectibles and income taxes, respectively, arise out of differing estimates of operating revenues from the various customer classes, and from the election to finance during the test year period by use of long-term debt. In computing taxes, the

full flow-through method was used. Both parties used a three-year average at a 10% rate to determine investment tax credits for the test years. The 9.6% California corporation franchise tax rate, the 46% federal income tax rate, and a 0.195 uncollectible factor were used in computing the respective items. Because we obtained differing operating revenues, as discussed earlier, we obtained slightly different uncollectible expense and taxes than did the parties.

Having adopted the above stated operating expense estimates, we set them forth in Table E of this opinion.

Rate Base

Cal-Water used weighted average balances to develop its depreciated rate base projections for the test years. It based these projections upon recorded data for the preceding five-year period, and upon preliminary construction budgets adopted pertaining to anticipated plant additions to be financed by the utility during the test year period. Included in its projections were allocated pro rata portions of the corporate plant, and it made adjustments to incorporate applicable weighted average depreciation reserves. After analysis of Cal-Water's projections, for the most part staff found them reasonable. But in some instances staff made its own independent estimates, resulting in certain proposed adjustments. Except for one adjustment to utility plant proposed by staff, Cal-Water adopted staff's adjustments. In that one exception, based upon later information staff accepted Cal-Water's estimate. We will review these adjustments, beginning with the elements making up weighted average plant in service.

In its analysis of utility-funded additions, staff observed that Cal-Water included $42,700 in its 1980 budget to complete a 1979 project. Staff agreed to this "carry-over" because although the money was spent and the job completed in 1979, the amount was not transferred to the plant account until 1980. In the 1982 budget staff would delete a proposed carport in the field yard, asserting that tarpaulins could be used instead to protect Cal-Water's trucks. While Cal-Water accepted this deletion from its budget we are not entirely convinced that it is good economics. San Mateo is subject to night condensation and fog, all conducive to rust and premature deterioration of equipment left

exposed in it. Tarpaulins are at best a temporary expedient in such climate and in a subsequent proceeding, if it is still necessary or convenient to park company vehicles in the field yard, we would be disposed to hear more of the pros and cons relative to erection of a carport. In the instant proceeding we will accept Cal-Water's dropping of the proposal and will delete the $75,000 originally included in the 1982 budget for this company-financed construction.

Passing from company-funded additions to plant to advances for construction, we see that staff's estimates for test years 1981 and 1982, respectively, are $72,000 and $81,700 lower than Cal-Water's estimates. The company used a least-square trend technique to obtain its estimates, whereas staff, with access at the last minute to six months of recorded 1980 data, concluded that a simple average would provide more reasonable results. At the hearing Cal-Water accepted staff's results. We will adopt them too.

In 1979 Cal-Water had $263,100 in advances deposited with it, but at year's end $197,600 had not been spent. For the test years, Cal-Water had estimated that $33,700 would be unspent at the end of each year. Therefore, it included $163,900 ($197,600 - $33,700 = $163,900) in its 1980 utility plant addition's estimate. Anticipating that Sugarloaf III, a large San Mateo subdivision, would be started in late 1980, staff contended that for 1980 no "carry-over" at all would be the most reasonable approach, believing that unspent advances at the end of 1980 would be at least as great as at the end of 1979. However, staff was agreeable to some carry-over into 1981 plant additions, concluding that $120,600 would be appropriate. The issue faded, however, when, during the hearing, staff learned that the developer had canceled the new development. Based on this latter information, staff withdrew its objections to Cal-Water's estimates of unspent advances to be included in the test years. We conclude that staff acted appropriately and adopt Cal-Water's estimates.

With respect to contributions, staff, with access to six months of later 1980 data than was available when Cal-Water prepared

its estimates, forecast 1980 contributions $78,200 higher than did Cal-Water, and at $18,900 higher each year for test years 1981 and 1982. As did Cal-Water at the hearing, we too adopt staff's more reasonable estimates as our own.

Proceeding on with examination of the components which lead to the differing rate base determinations, we pass from utility plant in service elements to the remaining components making up the average depreciated rate base projections.

Under working capital we see that Cal-Water and staff had no disagreement with estimates for materials and supplies, or with minimum bank cash deposits, and we accept their estimates. But they did differ on working cash allowances. While both parties used the "lead-lag" day approach, staff used its own estimated figures for revenues, expenses, and rate of return. In that Cal-Water accepted staff's result we too will adopt staff's figures.[4/]

In estimating adjustments to utility plant, Cal-Water and staff agreed on reserves for amortization of intangibles and general office allocated rate base, but differed slightly with respect to their estimates on customer advances for construction, and differed substantially on contributions. As noted in our discussion earlier on customer advances, we adopted Cal-Water's estimates. Consequently, here too staff's proposed lower estimates for the test years are inappropriate, and we will adopt Cal Water's estimates on these adjustments. However, with respect to adjustments for contributions, as noted earlier, staff's estimates were based on later data and will be adopted, resulting in estimates for 1981 and 1982, respectively. $86,900 and $104,100 higher than Cal-Water's.

Finally, in considering deductions for depreciation reserves we see there were but minimal differences between Cal-Water's estimates for the test years and those of the staff. These differences derive from differing estimates of plant additions. There we adopted staff's

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4/ We wish to note, however, that using our revised component figures, one would arrive at $129,500 for 1981 and $136,600 for 1982 with respect to working cash allowances. But as the change to rate base in turn would produce only a small change in net operating revenue, we will not alter the rate base accepted by Cal-Water.

smaller estimates as our own and, accordingly, here we are also constrained to adopt staff's lower weighted average depreciation reserve estimates which result.

After the foregoing review we find that our conclusions result in average depreciated rate base of $10,479,700 being adopted for 1981, and $10,851,900 being adopted for 1982, as set forth in Table E, our adopted Summary of Earnings.

Rate of Return

In D.92604 dated January 2, 1981, in Application 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%, 11.08%, and 11.50% for the years 1981, 1982, and 1983, respectively. These rates of return are designed to hold return on common equity at 13.7% 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% as the anticipated cost of such debt financing.

Since we discussed these subjects extensively in D.92604, it is not necessary to repeat that material here; rather, we will incorporate by reference our previous discussion. For immediate reference purposes, however, we attached Table C, a comparison of Cal-Water's and staff's positions on rate of return, and Table D, our adopted rates of return, to show how our adopted rates of return for 1981, 1982, and 1983 were derived.[6/]

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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.

6/ In D.92604, these tables are Tables D and E, respectively.

TABLE C

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 D

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 E, 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%, and sets forth operating revenues which would be provided at present rates and those which will be required to produce the 13.7% rate of return on common equity we are authorizing for the test years.

TABLE E

Cal-Water Service Company - San Mateo District
Adopted Summary of Earnings
(Dollars in Thousands)

| | Test Year 1981 | Test Year 1982 |
|---|---|---|
| **At Present Rates** | | |
| Operating Revenues* | $ 4,575.4 | $ 4,639.6 |
| Operating Expenses | | |
| Purchased Power** | 124.3 | 126.2 |
| Purchased Water | 1,649.7 | 1,675.2 |
| Payroll-Dist. | 432.8 | 469.5 |
| Other Oper. & Maint. | 290.9 | 317.4 |
| Other Admin. & Genl. & Misc. | 33.4 | 35.2 |
| Ad Valorem Taxes-Dist. | 106.5 | 113.9 |
| Payroll Taxes-Dist. | 31.8 | 34.5 |
| Business License | 20.0 | 20.0 |
| Depreciation | 287.6 | 307.1 |
| Ad Valorem Taxes-G.O. | 1.9 | 1.9 |
| Payroll Taxes-G.O. | 8.6 | 9.3 |
| Other Prorates-G.O. | 333.7 | 361.0 |
| Subtotal | 3,321.2 | 3,471.2 |
| Uncollectibles | 8.9 | 9.0 |
| Income Taxes Before ITC | 266.4 | 199.1 |
| Investment Tax Credit | (86.2) | (89.9) |
| Total Oper. Expenses | 3,510.3 | 3,589.4 |
| Net Operating Revenues | 1,065.1 | 1,050.2 |
| Rate Base | 10,479.7 | 10,851.9 |
| Rate of Return | 10.16% | 9.68% |
| **At Proposed Rates** | | |
| Operating Revenues | 4,731.6 | 4,952.0 |
| Operating Expenses | | |
| Subtotal | 3,321.2 | 3,471.2 |
| Uncollectibles | 9.2 | 9.6 |
| Income Taxes Before ITC | 346.2 | 358.7 |
| Investment Tax Credit | (86.2) | (89.9) |
| Total Oper. Expenses | 3,590.4 | 3,749.6 |
| Net Operating Revenues | 1,141.2 | 1,202.4 |
| Rate Base | 10,479.7 | 10,851.9 |
| Rate of Return | 10.89% | 11.08% |

(Red Figure)

* Operating Revenue is based on June 3, 1980 W-2652 authorization.

** Purchased Power is calculated at April 29, 1980 PG&E rates.

Contrasting the operating revenues set forth in Table E, it is apparent that the rates of return which we are authorizing will produce additional gross revenues of $156,200 in 1981, an increase of 3.41% over the revenues which would have been produced by the rates authorized at the time the instant application was heard. However, it must also be noted that these new revenues will include the approximate $53,800 (1.3%) increase authorized, after filing of the instant application, to offset increased power costs derived from the April 29, 1980 PG&E increase, a balancing account adjustment and changes in ad valorem taxes. In 1982, an additional $154,200 will be produced, an increase of 3.21%. 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 in this decision for 1983 to allow for attrition, both operational and financial, after 1982. Following methodology used in our most recent decisions in preceding similar applications (D.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 10.16% in 1981 to 9.68% in 1982 (see Table E), is 0.48%. 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, 11.08% and 11.50%. To offset this combined 0.90% (0.48% + 0.42%) operational and financial attrition, we will authorize a 1983 step increase of $200,500.[7/]

On or after November 15 in the years 1981 and 1982, Cal-Water will be authorized to file advice letters (with appropriate work papers) to justify implementation of the step rate increases postulated here for each of these years. These supplemental filings

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7/ Using the formula: Rate Base x Rate of Combined Attrition x Net-to-Gross Multiplier = Step Increase, we find:
$10,851,900 x 0.90 x 2.0525 = $200,500.

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 PG&E rate of 7.319¢ per kWh which became effective April 29, 1980. The composite effect of the assumed rates for purchased power is the average cost of $0.2822 per Ccf of water sold during 1981 and 1982. The San Mateo District's effective ad valorem tax rate is 0.905% of estimated beginning-of-year net plant plus materials and supplies. The corresponding effective rate for prorated general office ad valorem taxes is 0.905% of beginning-of-year net plant plus materials and supplies. The income tax rates are the current 9.6% state and 46% (with intermediate steps) federal rates. The uncollectible rate used was 0.195%, and the net-to-gross multiplier was 2.0525.

## Rate Design

In a rate proceeding after total revenue requirements have been determined, the next step must be to provide for equitable distribution of the increases found necessary to the components making up the rate schedule. In the San Mateo District the accumulated increases in revenue since January 1, 1976 have already exceeded 25%. Therefore, any increase in revenue we authorize here may be applied to lifeline rates, and Cal-Water proposes to increase lifeline rates annually by approximately the average percentage revenue increase for 1981, 1982, and 1983, respectively. We agree. Because service charges in San Mateo are substantially below levels obtained in other Cal-Water districts, the company proposes that service charge rates, except for the 5/8 x 3/4-inch meter, be increased by a larger percentage than the average revenue increases. On the other hand, staff would spread the authorized increase equally to service charges and to quantity rates. Cal-Water 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. Cal-Water 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, whereas in a drought year, earnings will plummet.

While we recognize the underlying merit inherent in Cal-Water'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 incentive 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 Cal-Water'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 Cal-Water, 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 Cal-Water 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

Wage and Price Standards: By Resolution 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 6 to this proceeding, Cal-Water complied. However, by Executive Order 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 M-4705 dated April 24, 1979, contemplated that final decisions on pending rate 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 D.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 $82,300 (a 1.75% increase) and a rate of return of 10.89% on rate base in the San Mateo 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 1.75% compared to the 3.41% 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 Cal-Water and the Commission staff, the resulting final order contained herein should be effective on the date of signature.

Findings of Fact

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

2. Cal-Water's conservation program is satisfactory. Its pump efficiency program meets or exceeds standards.

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

4. The operating revenues and operating expenses set forth in Table E for the test years were updated (1) to include the 1.3% offset increase authorized by Commission Resolution W-2652 dated June 3, 1980, and (2) to provide for the increase in purchased power costs arising out of the PG&E increase made effective April 29, 1980.

5. Cal-Water's estimates of commercial sales for test years 1981 and 1982 reasonably reflect prevailing conditions.

6. Cal-Water's estimates of the average number of public authority services for test years 1981 and 1982 are more reflective of probable attainment under prevailing conditions than are those of staff; however, staff's estimates of anticipated consumption per average public authority service are more soundly based than those of Cal-Water. Accordingly, resulting total consumption estimates for the public authority class of 274.9 KCcf and 280.8 KCcf, respectively, for test years 1981 and 1982, reasonably indicate probable total consumption.

7. The adopted estimates of operating revenues, operating expenses, and rate base for test years 1981 and 1982, as set forth herein in Table E, and a decline of 0.48% in rate of return into 1983 as a consequence of operational attrition at the present authorized rate level reasonably indicate the results of Cal-Water's operations in the immediate future.

8. At this point in time Cal-Water's capitalization structure and general financial circumstances do not preclude reliance upon

long-term financing through the test period for all financing anticipated herein.

9. Cal-Water's estimate of 13.1% as the anticipated cost of such debt financing is reasonable.

10. Rates of return of 10.89%, 11.08%, and 11.50%, respectively, on Cal-Water's rate base for 1981, 1982, and 1983 are reasonable. The related return on common equity is 13.7%. This will require an increase of $156,200, or 3.41% in annual revenues for 1981; a further increase of $154,200, or 3.21%, in 1982; and a further increase of $200,500, or 4.05%, in 1983.

11. The adopted rate design is reasonable.

12. The increase 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.

13. 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 Cal-Water during the corresponding period in the most recent rate decision, or (b) 10.89% for 1981, and 11.08% for 1982.

14. The revenues authorized herein, pursuant to provisions of Commission Resolution 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 (Cal-Water), is authorized to file for its San Mateo District the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 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 Cal-Water is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the San Mateo District 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, exceeds the lower of (a) the rate of return found reasonable by the Commission for Cal-Water during the corresponding period in the then most recent rate decision, or (b) 10.89%. Such filing shall comply with General Order 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 30 days after the filing of the step rate, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1982 Cal-Water is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the San Mateo District 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, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for Cal-Water during the corresponding period in the then most recent rate decision, or (b) 11.08%. Such filing shall comply with General Order 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 30 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.

This order is effective today.

Dated MAY 19 1981, at San Francisco, California.

President

Commissioners

APPENDIX A

Schedule No. SM-1

San Mateo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Mateo and vicinity, San Mateo County.

RATES

| | Per Meter Per Month |
|---|---|
| Service Charge: | |
| For 5/8 x 3/4-inch meter | $ 2.60 |
| For 3/4-inch meter | 3.30 |
| For 1-inch meter | 4.40 |
| For 1½-inch meter | 6.00 |
| For 2-inch meter | 8.00 |
| For 3-inch meter | 16.00 |
| For 4-inch meter | 22.00 |
| For 6-inch meter | 33.00 |
| For 8-inch meter | 49.00 |
| For 10-inch meter | 62.00 |
| Quantity Rates: | |
| First 300 cu.ft., per 100 cu.ft. | 0.580 |
| Next 29,700 cu.ft., per 100 cu.ft. | 0.763 |
| Over 30,000 cu.ft., per 100 cu.ft. | 0.714 |

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.

(END OF APPENDIX A)

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** | | |
| For 5/8 x 3/4-inch meter | $0.10 | $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 | 0.25 |
| For 2-inch meter | 0.30 | 1.00 |
| For 3-inch meter | 1.00 | 1.00 |
| For 4-inch meter | 1.00 | 1.00 |
| For 6-inch meter | 1.00 | 2.00 |
| For 8-inch meter | 2.00 | 2.00 |
| For 10-inch meter | 2.00 | 3.00 |
| **Quantity Rates:** | | |
| For the first 300 cu.ft., per 100 cu.ft. | $0.018 | $0.024 |
| For the next 29,700 cu.ft., per 100 cu.ft. | 0.024 | 0.032 |
| For all over 30,000 cu.ft., per 100 cu.ft. | 0.023 | 0.030 |

(END OF APPENDIX B)

APPENDIX C
Page 1

ADOPTED QUANTITIES

Company: California Water Service Co.
District: San Mateo

| | | 1981 Ccf(1000) | 1982 Ccf(1000) |
|---|---|---|---|
| 1. | Water Production: | 5,846.0 | 5,936.3 |
| | Purchased Water: | 5,846.0 | 5,936.3 |
| 2. | Electric Power: | 0.2905 kWh per Ccf | Supplier: PG&E Date: 4-29-80 |
| | kWh: | 1,698,500 | 1,724,800 |
| | Cost: | $ 124,300 | $ 126,200 |
| | Cost per kWh: | $ .07319 | $ .07319 |
| 3. | Purchased Water: | | (City of San Francisco, 7-1-79) |
| | Cost: | $1,649,700 | $1,675,200 |
| | $/Ccf: | $ .2822 | $ .2822 |
| 4. | Ad Valorem Taxes: | $ 106,500 | $ 113,900 |
| | Tax Rate: | 0.905 | 0.905 |

5. Net-to-Gross Multiplier: 2.0525

6. Uncollectible Rate: 0.195%

7. Metered Water Sales Used to Design Rates:

| | Range - Ccf | Usage - Ccf 1981 | Usage - Ccf 1982 |
|---|---|---|---|
| Block 1 | 0-3 | 836,155 | 841,993 |
| Block 2 | 4-300 | 3,922,929 | 3,986,734 |
| Block 3 | 300 | 455,516 | 466,473 |
| Total Usage | | 5,214,600 | 5,295,200 |

APPENDIX C
Page 2

ADOPTED QUANTITIES

8. Number of Services:

| | No. of Services | | Usage-KCcf | | Avg. Usage-Ccf/Yr. | |
|---|---|---|---|---|---|---|
| | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 |
| Commercial - Metered | 24,038 | 24,183 | 4,915.8 | 4,989.0 | 204.5 | 206.3 |
| Industrial | 16 | 17 | 15.0 | 16.5 | 940.0 | 970.0 |
| Public Authority | 231 | 234 | 274.9 | 280.8 | 1,190.0 | 1,200.0 |
| Other | 12 | 12 | 8.9 | 8.9 | 741.7 | 741.7 |
| Subtotal | 24,297 | 24,446 | 5,214.6 | 5,295.2 | | |
| Private Fire Prt. | 164 | 170 | | | | |
| Public Fire Prt. | 8 | 8 | | | | |
| Total | 24,469 | 24,624 | | | | |
| Water Loss 10.8% | | | 631.4 | 641.1 | | |
| Total Water Produced | | | 5,846.0 | 5,936.3 | | |

APPENDIX C
Page 3

INCOME TAX CALCULATION

| Item | 1981 | 1982 |
|---|---|---|
| **State Franchise Tax** | | |
| Operating Revenue | $4,731.6 | $4,952.0 |
| Expenses | | |
| O&M | 2,884.5 | 3,005.3 |
| Taxes Other Than Income | 158.3 | 168.4 |
| Subtotal | 3,042.8 | 3,173.7 |
| Deductions & Adjustments | | |
| Transportation Depr. Adj. | (19.2) | (20.8) |
| G.O. Depr. Adj. | (4.9) | (5.0) |
| Soc. Sec. Taxes Capitalized | 5.4 | 5.8 |
| Interest | 506.5 | 544.6 |
| Subtotal Deduction | 487.8 | 524.6 |
| State Tax Depreciation | 538.6 | 568.0 |
| Net Taxable Revenue | 662.4 | 685.7 |
| CCFT at 9.6% | 63.6 | 65.8 |
| **Federal Income Tax** | | |
| Operating Revenue | 4,731.6 | 4,952.0 |
| Expenses | 3,042.8 | 3,173.7 |
| Deductions | 487.8 | 524.6 |
| FIT Depreciation | 515.0 | 543.2 |
| Preferred Stock Div. Cr. | 3.2 | 3.2 |
| State Income Tax | 63.6 | 65.8 |
| Taxable Revenue | 619.2 | 641.5 |
| FIT at 46% | 284.8 | 295.1 |
| Graduated Tax Adj. | (1.3) | (1.3) |
| Adj. for Invol. Conver. | (.9) | (.9) |
| Investment Tax Credit | (86.2) | (89.9) |
| FIT | 196.4 | 203.0 |

(Red Figure)

(END OF APPENDIX C)