

Decision No. 85122

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
SOUTHERN CALIFORNIA WATER COMPANY for
authority to modify its Purchased
Power Adjustment Clause in its Bear
Valley Electric District to include
an offset for the September 1973 in-
crease in the price of power purchased
from Southern California Edison Company
under Schedule R-2.

Application No. 55559
(Filed March 12, 1975)

Agnew, Miller & Carlson, by William J.
Bogaard, Attorney at Law, for applicant.
James T. Quinn, Attorney at Law, Gregory J.
Hobbs, and C. Frank Filice, for the
Commission staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to modify its purchased power adjustment clause in its Bear Valley District to include an increase in rates to offset the September 1973 increase in the price of electric energy purchased from Southern California Edison Company (Edison). The rate increase requested represents an increase of \$159,600, or 10.8 percent in revenues, and SCWC seeks to pass through to customers only the effect of increases in the resale rate that it pays for electric energy.

SCWC, a California corporation, renders public utility water service in portions of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura Counties. It also renders public utility electric service in its Bear Valley District in the vicinity of Big Bear Lake in San Bernardino County.

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The Bear Valley District electric system consists of approximately 15.8 miles of 33-KV transmission lines, approximately 133 miles of 2.4/4.16 KV distribution lines, and eight substations with a combined capacity of 13,450 KW.

On December 31, 1974 there were 11,171 electric customers served. Service is also provided to 427 street lights. As of December 31, 1974 the cost of fixed capital in the Bear Valley Electric District was \$5,052,000 with a depreciation reserve of \$1,686,952, or a net book cost of \$3,365,048.

SCWC purchases electric energy for resale from Edison on Resale Service Schedule No. R-1 at Harnish Substation and on Resale Service Schedule No. R-2 at Gold Mountain.

After notice, public hearings were held before Examiner James D. Tante on August 28 and 29, 1975 in Big Bear Lake. This application was consolidated for hearing and heard with SCWC's Application No. 55318, filed November 12, 1974, for authorization for a general rate increase, and was severed from Application No. 55318 and submitted at the close of the hearing on August 29, 1975.

Testimony in behalf of SCWC was presented by its senior vice president, the chairman of its finance and budget committee, its vice president for operations, and the manager of its rate and valuation department. The Commission staff presentation was made by an engineer. One customer spoke in opposition to the increase.

Edison's resale service to SCWC is regulated by the Federal Power Commission. Effective November 14, 1971 Edison instituted a general rate increase in its resale rates to SCWC by 15 percent under FPC Docket No. E-7618. Effective September 7, 1973 Edison instituted a further increase of 40 percent in its

rates to SCWC under FPC Docket No. E-8176. It is the September 1973 increase in Edison's Schedule R-2 that SCWC seeks to have offset by a modification to its present purchased power adjustment clause.

Effective May 2, 1974 in FPC Docket No. E-8570 Edison instituted a fuel clause adjustment in its resale tariffs that increase or decrease rates to SCWC in proportion to an increase or decrease in Edison's recorded fuel generation costs above or below a base level. Also in FPC Docket No. E-8570 and effective August 4, 1974 Edison instituted a further general rate increase of approximately 20 percent above the basic rates then in effect.

The November 1971 Edison increase has become final by order of the Federal Power Commission. Edison's September 1973 increase in Docket No. E-8176 and the general increase and the monthly fuel cost increases that were made effective in 1974 in Docket No. E-8570 are still subject to a final order of the Federal Power Commission.

Tabulated below is the effect, based on 1974 KWH purchases, of the rate increases made effective starting November 1971 as stated in the application:

Annualized Edison Resale Rate Increases to SCWC

	<u>Schedule R-1</u>	<u>Schedule R-2</u>	<u>Total</u>	<u>c/KWH</u>	<u>As % of Prior Nov. '71 Rates</u>
<u>General Rate Increases</u>					
November 1971	\$	\$ 41,875	\$ 41,875	.101c	10.7%
September 1973	25,579	145,985	171,564	.414	43.7
August 1974	<u>16,699</u>	<u>105,922</u>	<u>122,621</u>	<u>.296</u>	<u>31.2</u>
Total General Increases	\$42,278	\$293,782	\$336,060	.811c	85.6%
1974 KWH Purchases	5,748,000	35,698,699	41,446,699	-	-

By Decision No. 83290, dated August 6, 1974, SCWC was granted authority to include a purchased power adjustment clause in its tariffs under which its rate is the sum of two components.

The first component is a variable to track the increases or decreases in resale rates caused by the operation of Edison's fuel clause adjustment contained in Docket No. E-8570. Edison's fuel clause adjustment, filed under Federal Power Commission rules, changes monthly based on changes in Edison's recorded fuel costs. Decision No. 83290 authorized the filing by SCWC of a monthly advice letter tracking (with an adjustment for losses) Edison's monthly fuel cost rate change. SCWC's monthly change in rates are made effective upon California Commission action in SCWC's advice letters. Since its purchased power adjustment clause became effective on August 11, 1974, there have been nine increases and five reductions in rates to SCWC's customers.

The second component of SCWC's present purchased power adjustment clause is a constant to offset the effect of general rate increase in Schedule R-1 and Schedule R-2 that Edison made effective August 4, 1974 (\$122,621 in the tabulation above). By this application SCWC requests that the effect of Edison's September 1973 general rate increase in Schedule R-2 (\$145,985 in the tabulation above) also be included in the applicant's adjustment clause.

The Bear Valley District is a seasonal recreational area and includes many second homes, therefore, the average energy used per domestic customer is only approximately 150 KWH per month, and approximately 75 percent of all billings to domestic customers are for 200 KWH per month or less. At the rate increase proposed by SCWC of 0.413 cents per KWH, the increase to the average user would be approximately 62 cents per month. The higher use domestic customers and the

commercial and industrial customers would incur a greater increase in both the amount to be paid and a percentage of prior billings.

Exhibit C attached to the application shows that for the recorded year 1974, adjusted to reflect the effect of Edison's general rate increases and the offset increase requested in this application, the rate of return would be 7.68 percent. The Commission staff prepared a report dated August 14, 1975 setting forth the results of its investigation and an analysis of the application for a general increase. That report, received as Exhibit 9, sets forth in Table 11-C the functional summary of earnings and rates of return for the test year 1975 for SCWC's Bear Valley District. It shows that based upon present rates the net operating revenue is \$155,200, and the rate base is \$3,195,500, showing a rate of return of 4.86 percent. For the purpose of this application SCWC has adopted these figures in its Exhibit 7 received in evidence to show the effect of the offset proposed in this application. Exhibit 7 shows that the effect of the offset proposed would increase total revenues by \$159,600 and operating expenses in the sum of \$85,200 for a net operating revenue increase in the sum of \$74,400. This added to that set forth in Table 11-C of Exhibit 9 would increase total revenues to \$1,635,600 and total operating expenses to \$1,406,000 to produce net operating revenue in the sum of \$229,600, and upon the rate base of \$3,195,500 would yield a rate of return of 7.19 percent. This rate of return is significantly below the 7.9 percent rate of return recently authorized for SCWC's Southwest, Central Basin, Culver City, Simi Valley, Pomona Valley, Barstow, and San Gabriel Valley Districts. Representatives of the staff had no objection to the proposed offset being included in SCWC's purchased power adjustment clause in its tariffs.

Findings

1. SCWC purchases electric energy for resale in its Bear Valley District from Edison on resale service Schedule No. R-1 at Harnish Substation and on resale service Schedule No. R-2 at Gold Mountain.

2. The Commission's Decision No. 83290 dated August 6, 1974 authorized SCWC to add a purchased power adjustment clause to its preliminary statement. This clause provides for an increase in rates to SCWC customers to offset the effect, after line losses, of Edison's general rate increase in Schedules Nos. R-1 and R-2 effective August 4, 1974 in Federal Power Commission Docket No. E-8570. The purchased power adjustment clause authorized therein also provides for an increase or decrease in SCWC rates based on increases or decreases in Edison fuel adjustment factors and further provides for the prompt refund to SCWC's customers of any refund from Edison to the extent that a corresponding rate increase has previously been passed on and charged to SCWC's customers. Provision is also made that the loss factor is to be revised annually to reflect the loss factor determined from the recorded results of operation at the close of each preceding year.

3. On September 7, 1973 Edison made effective under Federal Power Commission Docket No. E-8176 a general rate increase in its Resale Service Schedules Nos. R-1 and R-2 to SCWC, subject to refund pending the final determination of the issues in Docket No. E-8176. SCWC's present rates do not include the effect of this cost increase.

4. The rate of return of SCWC's Bear Valley District for test year 1975 at present rates will be 4.86 percent. At the offset rate increase requested by SCWC the rate of return would be 7.19 percent.

5. The purchased power adjustment clause of SCWC's preliminary statement should be modified to offset the effect of the September 7, 1973 Edison rate increase by increasing the rate by 0.413 cents per KWH on a uniform basis.

6. It is reasonable to authorize the rate increase to directly offset the Schedule No. R-2 resale rate increase of September 7, 1973, and the modification of the purchased power adjustment clause requested by SCWC will not produce rates that are higher than fair, just, and reasonable and will not produce a rate of return in excess of a fair rate of return for the Bear Valley District or for SCWC; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southern California Water Company is authorized to file a revised Paragraph 7(d) (and the corresponding revision to Paragraph 7(h)) of its purchased power adjustment clause in its preliminary statement now on file with the Commission as follows:

"(d) For service rendered on and after
adjustment
per KWH from 7(b) above may be
increased by 0.756¢ per KWH.

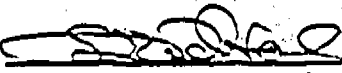
The 0.756¢ per KWH is the effect after line losses of the Schedule R-1 and R-2 resale general rate increase made effective by Edison on August 4, 1974 and the Schedule R-2 general rate increase made effective September 7, 1973."

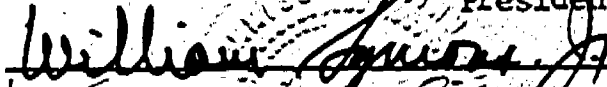
Such filing shall comply with General Order No. 96-A. The effective date of the revised paragraphs shall be four days after the date of filing. The revised paragraphs shall apply only to service rendered on and after the effective date thereof.

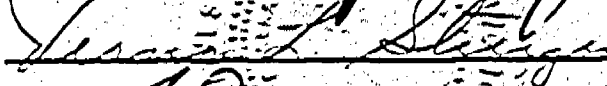
2. On or before April 1 of each year Southern California Water Company shall file with the Commission a revision to the preliminary statement indicating the loss factor calculated from recorded results of operation at the close of each preceding year.


The effective date of this order is the date hereof.

Dated at San Francisco, California,
this 18th day of NOVEMBER, 1975.



President






Commissioners