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ORIGINAL

Decision 84 07 120 JUL 18 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing it to increase the rates for water service in its Bay District.	Application 83-09-39 (Filed July 11, 1983)
In the Matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing it to increase water rates for water service in its Clearlake District.	Application 83-09-40 (Filed July 11, 1983)
In the Matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing it to increase water rates for water service in its Calipatria-Niland District.	Application 83-09-41 (Filed July 11, 1983)
In the Matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing it to increase the rates for water service in its Ojai District.	Application 83-09-42 (Filed July 11, 1983)

Joseph F. Young, for applicant.
Delbert Widmann, for himself, interested party.
Mary McKenzie, Attorney at Law, and Sung B. Han, for the Commission staff.

O P I N I O N

I - SYNOPSIS OF DECISION

By this decision we authorize rates of return on Southern California Water Company's (SCWC or applicant) rate base for 1984, 1985, and 1986 of 11.28%, 11.53%, and 11.67%, respectively. The related return on common equity is a constant 14.50%. The revenue increases authorized by this decision are:

District	1984		1985		1986	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Bay	$ 64.5	11.4%	$11.4	1.8%	$10.7	1.6%
Clearlake	139.5	36.6	40.7	7.6	27.1	4.7
Calipatria-Niland	163.6	50.0	71.6	14.4	(3.5)	(0.6)
Ojai	149.6	23.3	23.2	2.9	17.0	2.1

The large authorized increase for 1984 for the Calipatria-Niland District makes necessary a deferral of portions of the 1984 increases into 1985 to mitigate the impact of such a large increase on the affected customers. The increase for 1984 for the Calipatria-Niland District is limited to 50% and the remaining increase is applied in 1985.

II - INTRODUCTION

By these applications, filed simultaneously and consolidated for hearing, applicant requests authority to increase rates in its Bay, Clearlake, Calipatria-Niland, and Ojai districts.

Public hearings, followed by evidentiary hearings, were held before Administrative Law Judge (ALJ) Colgan in Calipatria on January 6, in Clearlake Park on January 17, and in Pittsburg (Bay District) on January 18, 1984. One public witness statement was received (regarding Ojai) and further evidentiary hearings were held in the Commission's Courtroom in Los Angeles on January 20 and 27 and February 24, 1984. Upon agreement of the parties, post-hearing briefs were scheduled for submission on March 19. This date was later extended to March 27, 1984 at the request of the parties. The case was submitted on the latter date.

III - GENERAL INFORMATION

Parent Company

SCWC owns and operates water systems in 18 districts and an electric system at Big Bear Lake. Each district is a separate unit for operational, accounting, and ratemaking purposes. The headquarters and general office is located in Los Angeles. Customers' bills for all districts are prepared in the Los Angeles general office. Overall functions such as accounting, engineering, data processing, and purchasing are also centralized there.

As of December 31, 1982 SCWC, statewide, was serving 220,544 water customers and 236,748 total customers with 380 total employees and a total plant investment of $167,539,000.

Gross operating revenue for the 12-month period ending December 31, 1982 was $46,296,800. SCWC's approximately two million shares of common stock are owned by more than 5,000 individual and institutional shareholders. Its preferred stock (195,700 shares in four series) is held by institutional investors.

Bay District

The Bay District serves portions of the City of Pittsburg, West Pittsburg, and adjacent unincorporated territory in Contra Costa County. The area is primarily residential with some small industrial and commercial segments. Over 99% of the 3,115 metered customers are in the "commercial" class which consists of residential and small business customers.

All of Bay District's water supply is purchased untreated from Contra Costa County Water District and is pumped through two filtration plants before delivery to the system. The district has a storage capacity of 646,000 gallons in two steel and one concrete tank. The historical cost of Bay District utility plant is $2,479,000 and the depreciation reserve on December 31, 1982 was $678,300 for a net depreciated cost of $1,800,700.

Clearlake

The Clearlake District serves the City of Clearlake and adjacent unincorporated areas of Lake County. The area is primarily residential with a small commercial segment. As of December 31, 1982 all but three of Clearlake District's 2,072 metered customers were in the commercial classification which consists of residential and business customers.

All of the water supply for the district is obtained from Clearlake from which it is pumped to two filtration plants for treatment before delivery to the system. Total storage

capacity of 701,000 gallons is distributed among two steel and one redwood tank. The historical cost of Clearlake District's utility plant is $1,380,400 and the depreciation reserve on December 31, 1982 was $354,800 for a net depreciated cost of $1,025,600.

Calipatria-Niland

The Calipatria-Niland District is comprised of two water systems, one in Calipatria and one in Niland--two small communities in Imperial County. A majority of the area is residential with small commercial and industrial segments. Most of the area's 1,027 customers are unmetered.

All the district's water supply is purchased untreated from the Imperial Irrigation District. It passes through the filtration plant in either Niland or Calipatria before being delivered through some 100,984 feet of distribution mains.

The district has eight settling basins with a combined storage capacity of 15 million gallons and two storage tanks with a combined capacity of 200,000 gallons.

As of December 31, 1982 the historical cost of utility plant was $1,542,100; the depreciation reserve was $234,300 for a net depreciated cost of $1,307,800.

Ojai

The Ojai District serves the City of Ojai and adjacent unincorporated areas in Ventura County. The district is primarily residential with some commercial areas. There are 2,477 metered customers, 98% of whom are in the "commercial" classification which consists of residential and business customers.

Fifteen percent of the district's water supply is purchased from Casitas Municipal Water District. The remainder comes from wells. The well water is chlorinated; the purchased water is taken directly into the delivery system.

The district has 2,477 customers served through 212,750 feet of distribution lines and has six tanks and reservoirs with a total capacity of 1,536,000 gallons from the wells.

As of December 31, 1982 the historical cost of utility plant was $2,289,400, the depreciation reserve was $624,300 for a net depreciated cost of $1,665,100.

IV - PRESENT AND PROPOSED RATES

Water service is presently rendered in these districts under the following schedules:

District	Schedule	Service
Bay	BY-1	General Metered
Clearlake	CL-1A	General Metered
Calipatria-Niland	CN-1	General Metered
	CN-2	General Flat Rate
Ojai	OJ-1	General Metered
	OJ-3M	Special Irrigation Metered
	OJ-7ML	Metered Public Park

Applicant wishes to amend most of these schedules. In addition, service is rendered in each of these districts under companywide Private Fire Protection Service (Schedule AA-5), Construction and Temporary Service (Schedule AA-9), and Service to Company Employees (Schedule AA-10).

Proposed rates developed by applicant are set forth in Appendix C of each district's application. Each is calculated to produce a rate of return on common equity of 17%. A comparison of the increase in the average customer's bill in each district over rates presently in effect follows.

Requested Average Residential Rate Increase

District	Test Years 1984 Increase Amount	1984 Increase Percent	1985 Increase Amount	1985 Increase Percent	1986 Increase Amount	1986 Increase Percent
Bay: 1,500 cu.ft. per month	$ 1.99	16.5%	$0.09	0.64%	$0.10	0.71%
Clearlake: 500 cu.ft. per month	6.11	50.16	1.14	6.23	0.67	3.45
Calipatria-Niland: Unmetered service per month	17.60	82.24	1.50	3.85	1.00	2.47
Ojai: 2,000 cu.ft. per month	5.33	29.98	0.84	3.60	1.01	4.20

V - REQUESTED REVENUE INCREASES

The increases requested by applicant for the estimated years 1984, 1985, and 1986 for each district are shown in the following tabulation:

Item	Bay		Clearlake		Calipatria-Niland		Ojai	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Increase in estimated 1984 over present	$91,500	17.00%	$184,100	51.05%	$259,500	79.21%	$187,500	29.61%
Increase in estimated 1985 over proposed 1984	6,000	0.96	39,400	7.23	23,600	4.02	30,900	3.76
Increase in estimated 1986 over proposed 1985	4,600	0.70	22,100	3.75	19,400	3.17	35,900	4.20
Approximate number of customers	3,115		2,072		1,027		2,477	

VI - INFORMAL PUBLIC MEETINGS

The hearing in this matter was preceded by informal public meetings in each of the four districts. The meetings were conducted by applicant and Commission staff to provide customers an opportunity to express their views and to give applicant an opportunity to explain its request and respond to customer questions in an informal setting. Notice of the meetings was sent to customers by mail.

For the Bay District, the meeting was held on November 7, 1983 at 7:30 p.m. in West Pittsburg. Twenty customers attended. They expressed opposition to any increase so long as water quality is not improved and described unpleasant smells and dirty water.

For the Clearlake District, the meeting was held on November 9, 1983 at 7:30 p.m. in Clearlake Park. Sixty-six customers attended. Many customers expressed opposition to the magnitude of the proposed increase and most had complaints about the water quality, especially the foul smell in September and October. There were also complaints about slow or incomplete maintenance. The California Department of Health Services (DHS) presented the Commission with a list of recommended improvements including turbidity alarms for the two filtration plants, a main replacement program, and a study of the objectionable smells and tastes. All these programs are now under way.

For the Ojai District, the meeting was held at 7:30 p.m. on November 15, 1983 in Ojai. Five customers attended. Two complained of the large number of main breaks and leaks and recommended more maintenance and an accelerated replacement program. One complained of occasional dirt in his water.

For the Calipatria-Niland District, the meeting was held at 7:30 p.m. on November 17, 1983 in Niland. About 220 customers attended. Most objected to the very large increase proposed (over 82% in 1984 for the average residential customer). Government officials claimed that the customers could not afford

the proposed rates, pointing out that about 40% of the local population is unemployed and about 70% receive some kind of government assistance. Many also complained about water quality, particularly the high sodium content which is particularly unhealthful for the elderly who comprise a large segment of the population. The result of a laboratory analysis of local water showing a sodium content of 124 milligrams per liter was presented by one customer.

VII - PUBLIC HEARINGS

Because of the number of service complaints, further public hearings were held before the ALJ in three of the four districts.

Calipatria-Niland

Fifty-two people attended the daytime public hearing in Calipatria. Of those, 29 indicated that they purchased water for drinking. Those that made statements variously complained that the water tastes bad, leaves a residue on dishes when they are rinsed, corrodes pipes, has a strong chlorine smell, and is too high in sodium.

Most people mentioned the very high level of unemployment and high percentage of retired people on fixed incomes in the area. They claimed that these people would be unable to shoulder the burden of the increase requested by applicant.

There is no question that the water in Calipatria-Niland is not the most aesthetically pleasing water. This district is situated near the southern end of the Imperial Valley. The water is purchased from the Imperial Irrigation District which gets it from the Colorado River. By the time the river gets into that part of the State, the water has been

used, added to, and reused countless times. In fact, because of the nature of its water source SCWC had to install filtration facilities in both Calipatria and Niland in order to meet Federal Clean Water Act requirements which, in California, are enforced by the DHS. SCWC also chlorinates the water to assure that the bacterial level remains in conformance with DHS's requirements. According to the regular water tests submitted in evidence by SCWC, it does meet State and Federal water quality standards. Unfortunately for those elderly persons and others who must minimize their salt intake, the State sets no limit for sodium in water supplies.

Further, as applicant's president pointed out to the people of Calipatria-Niland, SCWC already has a per customer investment of over $1,000--one of the highest cost systems SCWC has. That is why rates are as high as they are now and any additional treatment facilities would simply raise those rates even further.

Furthermore, it is doubtful that any treatment could be pursued that would appreciably improve the sodium problem. No standard for sodium exists in the Safe Drinking Water Act and to date the Environmental Protection Agency (EPA) knows of no effective affordable way of removing it.

Given this information and our further knowledge that the two filtration facilities have had the added benefit of greatly improving water pressure in both communities, we believe any further water treatment would create an unacceptable burden for the ratepayers of these communities.

Clearlake

Attendance at the public hearing in Clearlake was numerically similar to that in Calipatria. Also, like Calipatria, the Clearlake community is comprised of a very large component of retired people on small fixed incomes and families with low incomes. As a result, the majority of those who spoke described their inability to cope with increasingly large utility bills. There were service complaints too.

The water in this district is drawn from the lake, then treated and distributed. Much of the system is quite old and some of the pipes are laid very close to the surface of the ground. Further, in the summer the lake is often extensively invaded by algae blooms. These blooms create taste and odor problems that are ameliorated by SCWC with chlorination. This sometimes leaves a strong chlorine taste. Many residents mentioned this and stated that they bought bottled water for drinking in summer. Donald Saddoris, SCWC's northern division manager, explained in his testimony during the evidentiary hearing that SCWC is participating with several other utilities that draw water from the lake and with the DHS on a water treatment study designed to deal more effectively with this taste and odor problem.

Another service complaint was that water reaches as much as 100° F. in summer because water pipes are so close to ground surface. According to the testimony of Donald Twomley, SCWC's manager of operations, the shallow mains that allow water to heat up in summer are among those scheduled for replacement in the three-year capital improvement program planned for Clearlake. These replacements will also alleviate general pressure problems, which several complained about, he says.

Two people described an incomplete restoration of San Joaquin Road after the main was replaced there. Saddoris explained that the problem was the result of a dispute between applicant and a contractor. He said the company was presently in the process of hiring another contractor to finish the work.

Twomley also testified that Exhibit 10 shows that this district meets or exceeds all physical and mineral content standards set out by DHS. He also explained that the reason one person was occasionally receiving no water was that his house is 115 feet higher than the meter and the pressure pump the customer has is located near the house rather than at the meter where it would be more effective. Twomley stated he would explain this to the customer and suggest it be moved. One person complained of excessive sand which required him to clean his faucets very often. However, Exhibit 10 indicates that the sand levels are apparently within the DHS's requirements.

We are satisfied with the responses of SCWC to each of these service problems and do not think the complaints warrant further action in Clearlake.

Bay District

The public hearing for Bay District was held in the City Council Meeting Room in Pittsburg. Bay District primarily serves the community of West Pittsburg, which is adjacent to Pittsburg. Only five or six people attended the hearing. Four of them spoke. One spoke of others who had complained to him of discoloration, a fishy smell, the smell of chlorine and sand and mud.

A member of the County Board of Supervisors stated that water quality is always an issue at town meetings he holds in the community. He suggested that even though the water meets the "technical legal requirements of safe drinking water" the consumers are dissatisfied with it and, therefore, any rate increase should be tied to water quality improvements. The supervisor turned over several letters and records of telephoned complaints about Bay District received by his office.

One customer asked about the company's deposit policy, which she had apparently misunderstood. No other service complaints were made. It is clear from the correspondence file for this district that the same kinds of taste and odor problems exist here as exist in the Clearlake District. There are also many complaints of saltiness in the summertime.

Bay District takes its water from the Contra Costa Canal which is subject to fluctuations in the Sacramento-San Joaquin delta which empties into the ocean via the San Francisco Bay. Its location accounts for seasonal fluctuation in salt content as well as mineral and biological content.

As to the correspondence from the county supervisor, SCWC checked each item and concluded that all but one related to problems which had been brought to the attention of SCWC and the Commission by the supervisor in 1982 and had been successfully resolved. The final item, having to do with rude treatment of a customer in August 1983, was investigated by the district superintendent who personally visited the customer and reports that the problem has been satisfactorily resolved.

Again, as with the prior two districts, Bay District does not have the highest quality water, but it does meet all standards for purity established by the State, and we will not require more. We are satisfied that all service complaints involving Bay District have been reasonably resolved.

Ojai District

The director of public works for the City of Ojai, Kenneth Gilbert, appeared at the hearing in Los Angeles on January 20 to make a statement. While he supported staff's recommendation, he complained of much wasted water and street damage due to unrepaired leaks. He requested that a more ambitious main replacement program be undertaken in Ojai, suggesting $100,000 per year amortized over five years. He claimed the city council would go along with a rate increase 3% higher than recommended by staff if the money were used in this way. He also requested a better preventive maintenance program, suggesting that it would require additional personnel.

While we see no basis for the $100,000 figure used by Gilbert, we agree that a main replacement program should be established and followed in the Ojai District. Without further facts to support it, we are not willing to agree that the district needs further personnel to meet its maintenance needs.

VIII - NEED FOR RATE RELIEF

In each of the four applications applicant estimates a rate of return based on present rates and finds it to be depressed. Applicant contends that this is "mainly caused by increases in the costs of purchased water and power, labor, postage, payroll taxes, income taxes, liability insurance, depreciation, increased rate base, and increased cost of capital since these costs were last considered by the Commission in setting rates."

IX - RATE OF RETURN

Applicant asks for a 17% return on equity in each application. Staff recommends a range of between 14.5% and 15% as a reasonable rate of return. Applicant argues that staff's recommendation fails to recognize the difference in the risks and benefits of a thinly capitalized company such as SCWC as compared to other comparable companies. Thin capitalization refers to capitalization having a relatively higher percentage of debt to equity than the typical water utility. Applicant claims that thin capitalization results in the following:

1. A lower cost of total capital at a higher risk to investors;
2. Investors expecting to earn a higher return on a relatively higher risk investment;
3. A savings in capital costs over what a typical utility would experience; and
4. Less likelihood of achieving authorized rate of return.

As a consequence of these factors, applicant states that a thinly capitalized company can (and must) allocate a portion of the savings in capital costs to its equity investors and still will not show any higher customer costs than customers would otherwise pay with respect to the rate base on a less highly capitalized utility.

By example, applicant claims (see Exhibits 24 and 31) that if we granted it a rate of return of 16.30%, customers would not pay any higher amount for use of capital than the customers of California Water Service and San Jose Water Company pay as a result of the 14.5% rate of return granted to each of them, respectively, in D.83-12-037 and D.84-01-042. This is so, applicant claims, because these two utilities have much higher equity ratios than does SCWC.

Staff witness on this revenue requirements issue, Christopher Blunt, agreed in his testimony that investors do expect a slightly higher return from a highly leveraged (greater percentage of debt to equity, i.e. thinly capitalized) company, but added that for a regulated industry expectations are not for very much more. He claimed that the amounts SCWC was seeking overstated such an expectation and he stated that his recommendation reflects the slightly higher return expectation.

Furthermore, staff points out that SCWC has failed to consider possible higher interest charges resulting from perceived greater financial risk associated with thinner equity.

We are persuaded by staff's analysis of this issue. We are not persuaded by SCWC's claims about the effects of thin capitalization, and we believe SCWC's claims are overstated. Furthermore, we see no good reason for rewarding management's decision to be thinly capitalized. We are also aware of the fact that a 14.50% return on equity was granted for several similar major water utilities in California recently and their service levels were much better than that of these four districts. Although we consider the service levels for these districts are satisfactory, we find the service levels to be somewhat below average. Furthermore, granting a higher return on equity for thin equity will encourage SCWC to remain that way and it would not be in the best interest of its ratepayers or its shareholders because such thin equity capital will place itself at unnecessarily risky financial position. Therefore, we conclude that the low end of staff's recommended range--14.50%--is the most reasonable rate of return on equity and we will adopt that figure.

Rates of return for the test years are adopted as follows:

Test Period 1984, 1985, and 1986

Component	Capitalization Ratios	Cost	Weighted Cost
1984			
Long-term Debt	49.00%	9.65	4.73%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.23	1.07
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.28%
1985			
Long-term Debt	49.00%	10.06	4.93%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.65	1.12
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.53%
1986			
Long-term Debt	49.00%	10.31	5.05%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.80	1.14
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.67%

X - RESULTS OF OPERATIONS

To evaluate the need for a rate increase, witnesses for applicant and staff have analyzed and estimated for test years 1984 and 1985 applicant's operating revenues, operating expenses, and rate base for each district. For the most part, applicant stipulated to the reasonableness of staff's estimates which were based in part on later information than that available when applicant finalized its basic studies. The areas of disagreement and the summaries of earnings which we adopt are set forth below.

A. Customer Growth in Bay and Clearlake Districts

Applicant and staff used different means of projecting growth for commercial metered customers in Bay and Clearlake districts. Consequently their revenue projections differ. Staff's witness testified that he estimated these customers for 1984 and 1985 based on average recorded services for the five-year period of 1978 to 1982. The average increase for Clearlake District was 70 customers per year; the average for Bay District was 111 customers per year.

Applicant's methodology is unclear but was somehow projected from recorded data for November and December 1983. Applicant complains that the 1983 recorded data belie the accuracy of staff's method. We agree that more recent data should be reflected. Therefore, using the table which applicant extrapolated from the testimony and attached to its post-hearing brief and projecting a similar linear growth for average number of customers for the unreported month of December, we derive an average number of customers for 1983 of 3,116 for

Bay District and 2,076 for Clearlake District. By adding the average growth calculated by staff to these more recent figures we derive what appears to be a more accurate projection of growth which we will adopt. The figures are shown in the following tabulation:

Projected Commercial Metered Customer Growth

	1984			1985		
District	Staff	Company	Adopted	Staff	Company	Adopted
Bay	3,300	3,194	3,227	3,411	3,263	3,338
Clearlake	2,195	2,108	2,146	2,265	2,141	2,216

B. Filter Surface Washers in Bay District

Another area of disagreement is whether the cost of filter surface washers should be included in rate base for Bay District in 1984 and 1985. These washers are devices which alleviate the problem of "mud ball" accumulation during the backwashing of the filter sand.

According to applicant's division manager, Don Saddoris, backwashing is a reversal of water flow back through the filter sand to break up clay deposits and unsettleable material which accumulate on the surface of the sand ultimately causing a head loss in the filter. Generally, however, backwashing alone is insufficient to break up all the particles. The ones that are not broken up form into mud balls which get larger and larger until, if they are not removed, they eventually break through the filter letting sand into the system.

One way of removing these mud balls is manually. This requires a worker to climb into a cylinder of 6 or 8 feet in diameter through a 14-inch manhole and lift out the mud balls with a sieve and hand them up to someone outside the cylinder. Another alternative is the filter surface washers. These devices are nozzles located two to four inches above the sand which come on for two to three minutes just prior to the backwash. They shoot jets of water on top of the clay causing it to break up prior to the backwash, making the backwash more efficient. Saddoris stated that surface washers eliminate the mud ball problem by 70 or 80%. He also stated he has not heard of a new filter being installed without surface washers in recent years.

Staff is of the opinion that the surface washers are unnecessary in the Bay District. This is based on a conversation which a staff witness had during a field investigation of the Bay District plant during which he was informed that the mud ball problem was caused by operator error and had virtually disappeared since a certain employee left the company and proper operating procedures were instituted.

When questioned about this at the hearing Saddoris stated that several years ago there was an employee at the Bay District plant who did not backwash often enough and therefore a major mud ball problem occurred with mud balls "maybe the size of baseballs"; but he went on to explain that even when operated correctly, there is a mud ball problem with these filters that surface washers can help alleviate.

Staff contends that if we do permit rate base to include an expenditure for surface washers, labor expense should be adjusted to reflect the labor savings realized by applicant.

We will allow the item in rate base, but we decline to adjust labor expense since the only evidence on the issue is Saddoris' testimony that some filters that do not have surface washers have to be checked at least annually and cleaning out the mud balls can take many hours of time which the employee could be devoting to other tasks.

C. Timing of Major Plant Additions in Clearlake and Ojai Districts

Applicant wishes to include all its planned main replacement costs for test years after their projected completion in Clearlake and Ojai as plant in service. Staff contends that some of these projects may not be completed on time and that there is a possibility that this money will simply be a windfall to applicant. Therefore, staff recommends that certain items be excluded from rate base at this time and that we deviate from our normal practice and authorize an advice letter offset proceeding whereby SCWC is permitted to file an advice letter requesting an offsetting increase upon timely completion of each project.

A staff witness testified that he believed the procedure to be necessary because a $15,000 retaining wall was included in Clearlake's last general rate case rate authorization, but it was not timely built. He stated that the ratepayers should not have to bear the risk of paying for projects that may not be completed as scheduled.

We would only want to implement such action where there was strong evidence that the company's projections were unreliable, since the costs and workload increase to staff and the company would otherwise be unreasonable. In this case, while the record never explained what happened to the retaining wall in Clearlake, we see no evidence that failure to accomplish projected main replacements on time is a serious problem for this company in either Clearlake or Ojai or that SCWC has ever experienced a windfall from such circumstances.

As to Clearlake, applicant's witness Twomley described what he called a "backbone" three-year main replacement program going from one end of the system to the other. The program commenced in 1983. In 1983 SCWC's estimated capital budget in Clearlake was $165,600. However, SCWC actually spent around $243,000 that year even though of this one of the projected jobs was only about 60% completed in January 1984 because of bidding problems. Two main replacement jobs are planned for 1984 in approximate amounts of $98,300 and $94,000. The first was to be work-ordered in March 1984. The 1985 projects are for $18,000 and $82,200. In addition to these, staff proposes an advice letter offset for the cost of land ($36,800) which SCWC plans to buy in 1985 in order to relocate part of a treatment plant and the cost of high turbidity alarms in both treatment plants and an automatic shutdown device for one plant estimated to total $16,000 and scheduled for work order in June 1984. Twomley testified that, in his opinion, all these projects would be done on time. As to the 1984 projects he expects the main replacement to take about three months. He further stated that the alarm and shutoff projects were moved up to 1984 after

the problem was raised by a representative of DHS at the public meeting in late 1983, noting that SCWC has a written commitment to DHS to finish these projects in 1984.

With respect to Ojai, staff recommends an advice letter offset for $49,600 in projected main replacements for 1984. Applicant's witness, Joseph Young, testified that the project is already under way, that SCWC has promised the City of Ojai that it will continue to complete the job, and that the work is necessary to bring down water loss in Ojai. Twomley testified that the 1984 phase of the project was scheduled to be work-ordered in March 1984 and would hopefully be completed by mid-year. He said that originally this project was scheduled to be done in three phases in 1983, 1984, and 1985, but when company and staff visited the site, the leaks and unexpectedly rapid deterioration of the pipe, plus input from Ojai's director of public works, Ken Gilbert, convinced SCWC to revise its budget to complete the work in 1984. Twomley stated he wrote a letter to Gilbert making a firm commitment to do the work as early in 1984 as possible. Further, Twomley pointed out that SCWC had already completed (in January 1984) a main replacement project budgeted for March 1984 in the amount of $3,000.

We are convinced by this testimony that there is no reason to believe that applicant will fail to complete these projects on time and that staff's proposal would unnecessarily burden both the company and the staff itself.

But in order to ensure that the ratepayers receive the benefits of improved service from these main replacements and other improvements, we will have the step rate increase for 1985 for the Clearlake District be subject to the completion of the two main replacement projects ($98,300 and $94,000) and turbidity alarm and automatic shutdown system ($16,000) in 1984, and the step rate

increase for 1986 be subject to the completion of the two main replacement projects ($18,000 and $82,200) and land acquisition for relocation of part of filteration Plant No. 1 ($36,000) in 1985. Similarly, the step rate increase for 1985 for the Ojai District will be subject to the completion of the Cuyama Road main replacement project ($49,600) in 1984.

Therefore, we will adopt such a rate adjustment provision and we will permit each of these plant additions to remain in rate base.

D. Water Loss - Clearlake District

Another area of disagreement raised at the hearing was applicant's estimate of unaccounted-for water. Such water is charged to the ratepayers and includes water used in filtering operations and water lost due to leaks and the like. Applicant's witness estimated Clearlake's unaccounted-for water at 16%, admitting that his figure for filtering operations was "somewhat arbitrary" since there is no accurate way of measuring this usage at present.

Staff's witness Kazemzadeh pointed out that Clearlake's unaccounted-for water estimates have gone from 30.8% in 1979 to 10% in 1980, to 18.3% in 1981. He further noted that no major main replacement was done between 1979 and 1980 that would account for the large reduction. Based on this he claimed that unaccounted-for water in Clearlake was probably not due to large losses through deteriorated mains, but rather through some other problem such as malfunctioning meters, bad bookkeeping, or some such management problem. Considering this he concluded that Clearlake did have the capacity for achieving a 10% maximum rate for unaccounted for water, and this 10% figure is a maximum acceptable figure for a system such as Clearlake.

We agree with staff's assessment of this issue. In fact, we note that one public witness in Clearlake claimed that his meter remained broken and unrepaired for eight months and that of a friend went unrepaired for six months. Therefore, we will adopt the 10% figure for unaccounted-for water.

E. Labor Expense

The record in this matter reflects a great deal of staff misunderstanding of the way SCWC accounts for labor expense. This was at least partially due to misinformation given to staff by SCWC personnel. Two issues regarding payroll remain unresolved.

1. Vacation Accrual Factor

The first issue is the proper vacation accrual factor to be used. This is a percentage of expensed income which is set aside in a liability account. It accrues to this account from pay earned while working and then is used up to pay the employee when he or she takes a vacation or holiday.

Applicant does not determine this accrual factor on an individual basis, but rather on a companywide basis (see, generally, Exhibit 19). Applicant uses a vacation accrual factor of 12%. Staff recommends that the factor only be 10.23%. Staff's witness, Wayne Koerting, testified that he determined this percentage by dividing the actual vacation taken during 1982 by the total payroll for 1982. This calculation does not account for vacation that is accrued during the year but not taken. Koerting justified this by noting that only five days vacation may be carried over one year to the next. Anything beyond that is lost if not taken and the company never pays for it. Koerting also

claimed that while staff would normally look at several years' records in order to calculate such a factor, he was unable to do so in this case because of time constraints. But, he added that he believed that since the company has about 400 employees, the number of vacation days taken in one year is "reasonably representative of that taken by the same number of employees over a number of years"

Staff witness Sung Han added that, while SCWC's accrual factor may have been derived by appropriate accounting procedures (as its witness, Christy W. Plemons, testified), for ratemaking it is necessary to reduce working cash allowance by the amount of the future liability remaining in the vacation accrual account. Since this has not been done he concludes that staff's figure is appropriate.

We find staff's explanation persuasive and we will adopt its vacation accrual factor of 10.23%.

2. Wage Escalation Factors

The second unresolved payroll issue has to do with escalation factors. Applicant used a 6% wage escalation factor without any adjustment for growth for both 1984 and 1985. Staff relied on wage escalation rates determined by our Revenue Requirements Division. For 1984, the rate is 4.3% and for 1985, it is 5.2%. An additional 0.2% is added each year to compensate for growth in the Calipatria-Niland and Ojai Districts. Similarly, 0.9% and 1.0% for 1984 and 1985 are added to the Bay District payroll and 0.7% and 0.8% for 1984 and 1985 are added to the Clearlake District payroll.

Neither staff nor applicant acquiesced to the other's calculation and neither addressed the issue in argument.

Applicant's report merely notes that "expense levels are projected on the basis of recent operating experience" (see, e.g. Exhibit 5, Chapter 5, paragraph 2). Staff points our that SCWC's average wages per employee have "outpaced both the average CPI and the California wage index for the past five years." (See, e.g. Exhibit 16, Chapter 3, paragraph 3.13.) Based on this information, we will adopt staff's escalation factors which total 4.5% in 1984 and 5.4% in 1985.

In several recent decisions we have expressed qualms about staff's reliance on cost of living indexes. In D.83-12-037, California Water Service's last rate proceeding we stated:

"Cost of living indexes are not acceptable surrogates for anticipated wage levels, in our opinion. We will, of course, accept cost of living evidence in the future, but we invite the parties to produce expanded showings on labor costs in future applications." (Mimeo, p. 21)

Earlier, in a decision involving San Gabriel Valley Water Company, we delineated the reasons for our discomfort:

"In this rate setting process, the Commission's obligation to ratepayers to maintain reasonable utility rates and high quality service is fundamental. This obligation, however, cannot be met or sustained if a utility is placed at a competitive disadvantage in skilled labor markets by allowances for forecasted wage adjustments that limit wages and salary increases to cost-of-living escalators while denying employees the opportunity to participate in productivity advances in the utility or in the economy. Our basic policy in this respect is to give maximum latitude to utility management to establish or negotiate wage and salary adjustments which are consistent with efficient management of operations, including access to skilled labor markets and the maintenance of a qualified utility workforce.

* * *

"We will adopt staff's labor escalation rate as a more reasonable reflection of required labor costs for ratesetting purposes. Adoption of the Staff's estimate, however, is by no means meant to be a ceiling that precludes or limits SGVWC from addressing its skill requirements in the context of actually establishing

> or negotiating wage adjustments. The adopted results of operation do not operate as an absolute limit on wage adjustment. Actual wages may be higher or lower than our adopted escalation factors imply. For example, even if a revenue requirement is set using an inflation index for wages, real wage gains could accrue out of unexpected reductions in other cost categories or productivity gains by the company as a whole. Management retains the responsibility for setting actual wages." (D.83-10-002, Mimeo, pp. 13-14).

We are disappointed that these concerns have not been addressed by the parties in this proceeding, and hope that future records will contain explicit analysis and discussion of these issues.

F. Summaries of Earnings

Based on the foregoing, the tables which follow set forth the adopted operating results for each district for test years 1984 and 1985 at rates authorized by this decision.[1/] Table 1 shows results for the Bay District, Table 2 for Clearlake District, Table 3 for Calipatria-Niland District, and Table 4 for Ojai District.

1/ For Calipatria-Niland District, the large adopted increase for 1984 triggers our policy of phasing in annual base rate increases in excess of 50%. By holding the first test year to 50%, we will grant applicant a revenue increase of $163,600 in 1984. The difference in revenue between 50% and what would otherwise be authorized, plus interest at the adopted 11.46% rate of return for 1984, will be added to the authorized increase for Calipatria-Niland for 1985.

TABLE 1

Southern California Water Company
Bay District

ADOPTED SUMMARY OF EARNINGS

Item	Test Year 1984	Test Year 1985
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	567.0	583.2
Operating Expenses		
Purchased Water	68.3	69.7
Purchased Power	41.5	42.4
Payroll	99.6	105.8
Purchased Services	18.1	19.3
Other O&M Expenses	62.3	67.6
A&G Expenses	36.6	38.6
G. O. Allocations	23.2	24.8
Depreciation Expenses	55.8	58.9
Taxes Other Than Income	23.1	24.9
Subtotal	428.5	452.0
Uncollectibles	2.3	2.4
Local Franchise Tax	6.0	6.2
CCFT	5.0	4.0
FIT before ITC	32.2	29.2
ITC	--	--
FIT	32.2	29.2
Total Operating Expenses	474.0	493.8
Net Operating Revenues	93.0	89.4
Rate Base	1099.5	1099.7
Rate of Return	8.46%	8.13%
Proposed Rates		
Operating Revenues	631.5	660.9
Operating Expenses		
Subtotal	428.5	452.0
Uncollectibles	2.6	2.7
Local Franchise	6.7	7.0
CCFT	11.1	11.3
FIT before ITC	58.6	61.1
ITC	--	--
FIT	58.6	61.1
Total OPerating Expenses	507.5	534.1
Net OPerating Revenues	124.0	126.8
Rate Base	1099.5	1099.7
Rate of Return	11.28%	11.53%

(Negative Figure)

TABLE 2

Southern California Water Company
Clearlake District

ADOPTED SUMMARY OF EARNINGS

	Test 1984	Test 1985
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	381.0	393.4
Operating Expenses		
Purchased Water	6.8	7.1
Purchased Power	27.9	28.2
Payroll	99.2	105.2
Purchased Services	13.5	14.1
Other O&M Expenses	34.3	36.8
A&G Expenses	32.8	34.8
G. O. Allocations	17.1	18.3
Depreciation Expenses	37.5	43.5
Taxes Other Than Income	20.1	21.1
Subtotal	289.2	309.1
Uncollectibles	1.6	1.7
Local Franchise Tax	0.0	0.0
CCFT	2.1	1.5
FIT before ITC	3.5	(1.4)
ITC	--	--
FIT	3.5	(1.4)
Total Operating Expenses	296.4	310.9
Net Operating Revenues	84.6	82.5
Rate Base	1350.8	1494.5
Rate of Return	6.26%	5.52%
Proposed Rates		
Operating Revenues	520.5	578.1
Operating Expenses		
Subtotal	289.2	309.1
Uncollectibles	2.2	2.5
Local Franchise	0.0	0.0
CCFT	15.4	19.1
FIT before ITC	61.3	75.1
ITC	--	--
FIT	61.3	75.1
Total Operating Expenses	368.1	405.8
Net Operating Revenues	152.4	172.3
Rate Base	1350.8	1494.5
Rate of Return	11.28%	11.53%

(Negative Figure)

Southern California Water Company
Calipatria-Niland District

ADOPTED SUMMARY OF EARNINGS

Item	Test Year 1984	Test Year 1985
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	$ 327.1	$ 330.6
Operating Expenses		
Purchased Water	14.5	14.5
Purchased Power	33.2	33.3
Payroll	85.0	89.6
Purchased Services	17.4	18.5
Other O&M Expenses	41.5	44.6
A&G Expenses	26.4	27.9
G. O. Allocations	14.7	15.6
Depreciation Expenses	44.3	46.4
Taxes Other Than Income	15.6	16.7
Subtotal	292.6	307.1
Uncollectibles	1.3	1.4
Local Franchise Tax	3.5	3.5
CCFT	(3.9)	(5.3)
FIT before ITC	(17.4)	(22.8)
ITC	--	--
FIT	(17.4)	(22.8)
Total Operating Expenses	276.1	283.9
Net Operating Revenues	51.0	46.7
Rate Base	1293.5	1317.8
Rate of Return	3.94%	3.54%
Proposed Rates		
Operating Revenues	524.5	549.3
Operating Expenses		
Subtotal	292.6	307.1
Uncollectibles	2.2	2.3
Local Franchise	5.5	5.8
CCFT	14.8	15.4
FIT before ITC	63.5	66.8
ITC	--	--
FIT	63.5	66.8
Total Operating Expenses	378.6	397.4
Net Operating Revenues	145.9	151.9
Rate Base	1293.6	1317.8
Rate of REturn	11.28%	11.53%

(Negative Figure)

Southern California Water Company
Ojai District

ADOPTED SUMMARY OF EARNINGS

Item	Test Year 1984	Test Year 1985
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	$ 642.9	$ 647.6
Operating Expenses		
Purchased Water	51.3	51.6
Purchased Power	130.8	131.3
Payroll	104.3	109.9
Purchased Services	45.5	48.3
Other O&M Expenses	23.6	25.2
A&G Expenses	40.2	42.0
G.O. Allocations	22.7	24.2
Depreciation Expenses	49.0	51.0
Taxes Other Than Income	26.2	26.4
Subtotal	493.6	509.9
Uncollectibles	3.0	3.0
Local Franchise Tax	10.4	10.5
CCFT	4.1	2.6
FIT before ITC	23.3	16.6
ITC	--	--
FIT	23.3	16.6
Total Operating Expenses	534.4	542.6
Net Operating Revenues	108.5	105.0
Rate Base	1595.5	1621.0
Rate of Return	6.80%	6.44%
Proposed rates		
Operating Revenues	792.5	821.5
Operating Expenses		
Subtotal	493.6	509.9
Uncollectibles	3.7	3.9
Local Franchise	12.9	13.3
CCFT	18.2	19.0
FIT before ITC	84.1	87.4
ITC	--	--
FIT	84.1	87.4
Total Operating Expenses	612.5	633.5
Net Operating Revenues	180.0	188.0
Rate Base	1595.5	1631.0
Rate of Return	11.28%	11.53%

(Negative Figure)

In addition to the rates authorized for 1984 and 1985, a third set of rates will be authorized for each of the districts to allow for attrition after test year 1985. This is in keeping with our intention that the districts of Class A water utilities will not file general rate applications more often than once in three years.

The attrition to be allowed after 1985 has an operational component and a financial component. Its financial component is the same for all districts and is the adopted estimate of financial attrition in rate of return of 0.14% between 1985 and 1986 (i.e. the difference between the rates of return of 11.67% and 11.53% for years 1986 and 1985, respectively). Its operational component, which is different for each district, is the decline in the 1984 rate of return of 11.28% to a lower level for 1985 at the rates authorized for 1984.

The following tabulation shows, by district, the operational attrition rate, combined financial-operational attrition rate, and the revenue increase necessary to offset the attrition in rate of return after test year 1985:

District	Operational Attrition	Combined Financial-Operational Attrition	Offset Revenue Increase (Step Increase)
Bay	0.33%	0.47	$10,700
Clearlake	0.74	0.88	27,100
Calipatria-Niland	0.40	0.54	14,800
Ojai	0.36	0.50	17,000

G. Amortization of Balancing Account

Staff recommends that, at the time when the decision is to be issued, if the accumulated over- or undercollection of balancing account exceeds 2% of the adopted revenue for these districts then the balance be amortized over one-year period except for the Clearlake District. For the Clearlake District, staff recommends that the undercollection on the balancing account be amortized over a three-year period to reduce the impact of such amortization. SCWC concurs with staff. Based on the undercollection balance of $45,957 for the Bay District and $59,217 for the Clearlake District as of December 31, 1983, an additional charge of $0.064 per 100 cubic feet of water usage will be applied until June 30, 1985 for the Bay District and an additional charge of $0.120 per 100 cubic feet of water usage will be applied until June 30, 1987 for the Clearlake District. Similarly, based on the overcollection balance of $48,645 as of December 31, 1983, a credit of $0.068 per 100 cubic feet of water usage will be applied until June 30, 1985 for the Ojai District.

XI - PUMP EFFICIENCY

Applicant has established a plan to test pumps not less than every two years and has a program to correct pumps that are deteriorating or fall into the "low" rating as established by efficiency tests conducted by Pacific Gas and Electric Company, Southern California Edison Company, and SCWC.

By district, staff made the following reports (Exhibits 14, 15, 16, and 17) on pump efficiencies:

Bay District - Of nine booster pumps, seven are rated excellent and two fair. Eight of the nine were tested in 1983.

Clearlake District - There are 14 booster pumps. Three are rated low, three fair, two good, and six excellent. All the pumps were tested in 1983. Two of the pumps that tested low have been designated for overhaul; the third pump that tested low is very small, only 1½ horsepower. Smaller pumps often have poorer efficiencies.

Calipatria-Niland District - There are seven booster pumps. One is rated low, two good, three excellent, and one pump on standby status is gas-powered and therefore not ratable under these standards. The pump rated low is scheduled for redesign. Two of the pumps were tested in 1983 and four in 1982.

Ojai District - There are 12 booster pumps and four well pumps. Of the booster pumps, four are rated fair, two good, five excellent, and one is new and has not been tested.

Of the well pumps, two are rated fair and two good. Eleven of the pumps were tested in 1983.

We find SCWC's plan to be sufficient to assure its pumps to be operating adequately.

XII - CUSTOMER SERVICE

In its reports (Exhibits 14 through 17), staff states that the following complaints were investigated and resolved by applicant in 1983:

Number of Complaints in 1983

District	Quality	Pressure	Billing	Miscellaneous	Total
Bay	48	21	95	8	172
Clearlake	62	10	129	27	228
Calipatria-Niland	4	14	3	38	59
Ojai	72	70	164	240	546

As to all four districts, staff observed that most of these complaints were resolved quickly and in a satisfactory manner. Therefore, staff concluded that service was satisfactory. Based on this assessment and the discussion of the informal meeting held in each district and the public hearing held in three of the districts, we agree that service is satisfactory.

XIII - RATE DESIGN

Applicant proposes no changes in its rate schedule design except in the Clearlake District. There it proposes to change its minimum rate structure for metered service to a structure which includes a service charge plus quantity rates. However, applicant proposes to make the first 300 cubic feet free of charge.

Staff agrees with the change to a service charge structure, but not the free water. Instead, staff recommends that the first 300 cubic feet be one-half the quantity rate for quantities over 300 cubic feet. Applicant has stipulated to staff's recommended design and we agree that it better reflects our conservation concerns in rate-setting.

Additionally, we agree with staff's recommendation that, due to Clearlake's large number of vacation-time customers and mobile home customers who have a small annual consumption per service connection, 60% of the revenues should be collected through the service charge. This seems like the most reasonable way of assuring that part-time users shoulder their fair share of the utility's fixed costs.

We also agree with staff's recommendation to change applicant's proposed rate design for the Ojai District somewhat so that, pursuant to our policy, the accumulated increase in lifeline rate remains 25% less than that of the average rate. Applicant has also stipulated to this change.

XIV - FINDINGS AND CONCLUSIONS

Findings of Fact

1. Rates of return of 11.28%, 11.53%, and 11.67% for applicant's rate base for 1984, 1985, and 1986, respectively, in the Bay, Clearlake, Calipatria-Niland, and Ojai districts are reasonable. The related return on common equity is a constant 14.50%.

2. Applicant's pump efficiency is satisfactory in each district.

3. Applicant's water quality in each district meets all standards established by the federal Environmental Protection Agency and by the California Department of Health Services.

4. Bay, Calipatria-Niland, and Clearlake districts all have water taste and odor problems due to their sources of supply. Applicant is taking all reasonable steps to ameliorate these problems.

5. Calipatria-Niland and Bay districts sometimes have very high levels of sodium chloride. Since there is no economically feasible technology to eliminate sodium chloride from water, applicant should not be required to take any action regarding this problem.

6. Applicant's service is adequate in each district given the circumstances described in this decision.

7. The adopted estimates of operating revenues, operating expenses, and rate base for the test years 1984 and 1985, as set forth in Tables 1, 2, 3, and 4 of this decision, together with the described additional revenue requirement for 1986 due to attrition, reasonably indicate the results of operation for applicant's Bay, Clearlake, Calipatria-Niland, and Ojai districts.

8. The adopted rate design for each district is consistent with the Commission's water conservation policies and is reasonable.

9. The adopted figures for projected customer growth in the Bay and Clearlake districts are reasonable.

10. It is appropriate to allow the cost of filter surface washers in rate base in the Bay District.

11. It is appropriate to allow costs of major plant additions planned for the Clearlake and Ojai districts to be included as plant in service after their projected completion dates without requiring applicant to file an advice letter requesting an offset upon completion of each project. But it is reasonable to have the step rate increases for 1985 and 1986 for the Clearlake District and for 1985 for the Ojai District be subject to the completion of major plant additions.

12. Clearlake District has the capacity to keep its unaccounted-for water at a 10% maximum. Therefore, the adopted 10% figure is reasonable.

13. Staff's recommended vacation accrual factor of 10.23% is reasonable for all districts.

14. Staff's recommended wage escalation factors of 4.5% for 1984 and 5.4% for 1985 are reasonable.

15. The rates of return specified in Finding of Fact 1, above, require the following increases:

	1984		1985	
District	Amount	Percent	Amount	Percent
Bay	$ 64,500	11.4%	$11,400	1.8%
Clearlake	139,500	36.6	40,700	7.6
Calipatria-Niland	197,400	60.3	19,200	3.6
Ojai	149,600	23.3	23,200	2.9

a. To mitigate the effect of the large 1984 increase in the Calipatria-Niland District, the revenue increase will be held to $163,600 in 1984 with further increases of $71,600 in 1985 and a reduction of $3,500 in 1986. Interest on the deferred portion of 1984 required revenue increase at the adopted rate of return will ensure that applicant is adequately compensated for the deferral. The other increases are reasonable.

Conclusions of Law

1. The adopted rates are just, reasonable, and nondiscriminatory for the future.

2. The application should be granted to the extent provided by the following order.

3. Because of the immediate need for additional revenue, the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company is authorized to file for its Bay, Clearlake, Calipatria-Niland, and Ojai districts, effective today, the revised rate schedules set forth in Appendix A, B, C, and D series to this decision. The effective date of the revised schedules shall be the date of the filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1984 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increase for 1985 included in Appendix A, B, C, and D series, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment for Appendix A, B, C, and D series for Bay, Clearlake, Calipatria-Niland, or Ojai, respectively, in the event that district's

rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1984, 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) 11.28%. This filing shall comply with General Order Series 96. The filing shall include a report of completion for two main replacement projects (Project 53-123 - $98,300 and Project 53-124 - $94,000) and an alarm and automatic shutdown system ($16,000) in the Clearlake District, and a letter of completion for the Cuyama Road main replacement project ($49,000) in the Ojai District. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1985, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1985, applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases for 1986 included in Appendix A, B, C, and D series, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A, B, C, and D series for Bay, Clearlake, Calipatria-Niland, or Ojai, respectively. in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1985, 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) 11.53%. This filing shall comply with General Order Series 96. The filings shall include a report of completion for the two main replacement projects (Project 51 - $18,000 and Project 53 - $82,200) and the relocation and acquisition for part of filteration plant

($36,000) for the Clearlake District. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1986, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. The application is granted as set forth above.

This order is effective today.

Dated July 18, 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

APPENDIX A

SOUTHERN CALIFORNIA WATER COMPANY
BAY DISTRICT

Schedule No. BY-1 Appendix A

GENERAL METERED SERVICE

Applicability

Applicable to all metered water service.

Territory

Portions of the City of Pittsburg and vicinity, Contra Costa County.

Quantity Rates:	Per Meter Per Month	
First 300 cu. ft., per 100 cu. ft.	$ .538	(I)
Over 300 cu. ft., per 100 cu. ft.	.671	

Service Charge:		
For 5/8 x 3/4-inch meter	3.80	
For 3/4-inch meter	5.10	
For 1-inch meter	7.50	
For 1½-inch meter	8.70	
For 2-inch meter	12.50	
For 3-inch meter	26.00	
For 4-inch meter	33.00	
For 6-inch meter	65.00	
For 8-inch meter	93.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Special Condition

1. Due to the undercollection in the balance account, an addition of $0.068 per Ccf of water usage is to be applied to the quantity rates to amortize the undercollection until June 30, 1985.

(END OF APPENDIX A)

APPENDIX B

BAY DISTRICT

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 1-1-85	1-1-86
SCHEDULE CO-1 General Metered Service		
Service Charges:		
For 5/8 x 3/4-inch meter	$ 0.20	$ .05
3/4-inch meter	0.20	.10
1-inch meter	0.40	.10
1½-inch meter	0.40	.20
2-inch meter	0.50	.50
3-inch meter	1.00	1.00
4-inch meter	2.00	0.00
6-inch meter	3.00	1.00
8-inch meter	4.00	2.00
10-inch meter	5.00	2.00
Quantity Rates:		
For the first 300 cu. ft., per 100 cu. ft.	.003	.009
For the over 300 cu. ft., per 100 cu. ft.	.003	.012

(END OF APPENDIX B)

APPENDIX C

Page 1

SOUTHERN CALIFORNIA WATER
CLEARLAKE DISTRICT

ADOPTED QUANTITIES

Offset Items	Test Years 1984	1985
1. Purchased Power:		
Total Production - KCCF	185.7	191.7
Acre - Feet	426.3	440.1
(a) Pacific Gas & Electric Company		
Total Cost	$ 26,797	$ 27,532
KWH	355,747	367,241
Eff. Sch. Date	4/6/83	4/6/83
$/KWH (composite rate)	.07533	.07497
2. Purchased Water - KCCF	127.4	133.4
Acre - Feet	292.4	306.2
$/Acre Feet	22.50	22.50
Total Cost	$6580.00	$6890.00

APPENDIX C
Page 2
BAY DISTRICT

ADOPTED QUANTITIES

5. Number of Service - Meter Size:

	1984	1985
5/8 x 3/4	3,144	3,254
3/4	--	--
1	50	51
1½	14	14
2	28	28
3	6	6
4	3	3
6	5	5
	3,250	3,361

6. Metered Water Sales

Range Ccf	1984 Usage - Ccf	1985 Usage - Ccf
0 - 3	124,900	128,500
Over 3	599,500	616,200
	724,200	744,700

7. Number of Service

	No. of Services 1984	No. of Services 1985	Usage-KCcf 1984	Usage-KCcf 1985	Avg.Usage-Ccf/yr. 1984	Avg.Usage-Ccf/yr. 1985
Comm.-Metered	3,227	3,338	585.2	605.3	181.3	181.3
Public Authority	19	19	108.2	108.2	5,694.7	5,694.7
Industrial	4	4	30.4	30.4	7,600.0	7,600.0
Other	--	--	0.6	0.8		
Subtotal	3,250	3,361	724.4	744.7		
Private Fire Prot.	3	3				
Total	3,253	3,364				
Water Loss: 10.0%			80.5	82.7		
Total Water Produced			804.9	827.4		

APPENDIX C
Page 3

SO CAL WATER - BAY DISTRICT

TAXES BASED ON INCOME

YEAR 1984

LINE NO.	ITEM	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(THOUSANDS OF DOLLARS)			
1	OPERATING REVENUES	567.0	567.0	631.5	631.5
2	O & M EXPENSES	357.9	357.9	358.9	358.9
3	TAXES OTHER THAN INCOME	23.1	23.1	23.1	23.1
4	CCFT	.0	5.0	.0	11.1
5	SUBTOTAL	381.0	386.0	382.0	392.1
6	DEDUCTIONS FROM TAXABLE INCOME				
7	TAX DEPRECIATION	73.0	35.5	73.0	35.5
8	INTEREST & MISC. DEDUCTIONS	53.5	53.5	53.5	53.5
9	BOOK TAX DEPRECIATION	.0	17.2	.0	17.2
10	LABOR BURDEN	7.2	7.2	7.2	7.2
11	AD VAL TAX & INT. EXCL.	.0	-2.9	.0	-2.9
12	PREFERRED STOCK DIV. CREDIT	.0	-.1	.0	-.1
13	SUBTOTAL DEDUCTIONS	133.7	110.4	133.7	110.4
14	NET TAXABLE INCOME FOR CCFT	52.3		115.8	
15	CCFT	5.0		11.1	
16	TOTAL CCFT	5.0		11.1	
17	NET TAXABLE INCOME FOR FIT		70.6		128.0
18	FEDERAL INCOME TAX		32.5		58.9
19	SURTAX EXEMPTION		-.3		-.3
20	FED. INCOME TAX BEFORE ADJ.		32.2		58.6
21	INVESTMENT TAX CREDIT		.0		.0
22	TOTAL FIT		32.2		58.6

Franchise	1.06%
Uncollectibles	0.41%
CCFT	9.6%
FIT	46%
Net-to-Gross	2.07898

APPENDIX C
Page 4

SOUTHERN CALIFORNIA WATER COMPANY

BAY DISTRICT
Taxes based on Income
Year 1985

LN NO.	Item	Adopted Rates CCFT (A)	Adopted Rates FIT (B)	Authorized Rates CCFT (C)	Authorized Rates FIT (D)
		(Thousands in Dollars)			
1	Operating Revenues	583.2	583.2	660.9	660.9
2	O + M Expenses	376.8	376.8	377.9	377.9
3	Taxes Other Than Income	24.9	24.9	24.9	24.9
4	CCFT	.0	4.0	.0	11.3
5	Subtotal	401.7	405.7	402.8	414.1
6	Deductions From Taxable Income				
7	Tax Depreciation	75.9	31.6	75.9	31.6
8	Interest & Misc. Deductions	57.1	57.1	57.1	57.1
9	Book Tax Depreciation	.0	20.5	.0	20.5
10	Labor Burden	7.2	7.2	7.2	7.2
11	Ad Val Tax & Int Excl.	.0	-2.9	.0	-2.9
12	Preferred Stock Div. Credit	.0	-.1	.0	-.1
13	Subtotal Deductions	140.2	113.4	140.2	113.4
14	Net Taxable Income for CCFT	41.3		117.9	
15	CCFT	4.0		11.3	
16	Total CCFT	4.0		11.3	
17	Net Taxable Income for FIT		64.1		133.4
18	Federal Income Tax		29.5		61.4
19	Surtax Exemption		-.3		-.3
20	Fed. Income Tax Before Adj.		29.2		61.1
21	Investment Tax Credit		.0		.0
22	Total FIT		29.2		61.1

(END OF APPENDIX C)

APPENDIX D

SOUTHERN CALIFORNIA WATER CO.
CLEARLAKE DISTRICT

Comparisons of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1984.

General Metered Service
(5/8 x 3/4-inch meters)

Monthly Usage	At Present Rates	At Authorized Rates	Percent Increase
(Cubic Feet)			
300	$ 9.26	$ 14.55	57.13%
500	12.18	17.55	44.09
646)Average)	14.31	14.73	37.88
1,000	19.48	25.04	28.54
2,000	34.08	40.02	17.43
3,000	48.68	55.00	12.98
5,000	77.88	84.96	9.09
10,000	128.38	159.86	24.52

(END OF APPENDIX D)

APPENDIX A-1

SOUTHERN CALIFORNIA WATER COMPANY

CLEARLAKE DISTRICT

Schedule No. Cl-1A

GENERAL METERED SERVICE

APPLICABILITY

Applicability to all metered water service furnished on an annual basis.

TERRITORY

Clearlake Park and vicinity, and Parkwoods Area, Lake County.

RATES

Quantity Rates:	Per Meter Per Month	
First 300 cu. ft., per 100 cu. ft.	$ .950	(I)
Over 300 cu. ft., per 100 cu. ft.	1.498	
Service Charge:		
For 5/8 x 3/4-inch meter	11.70	
3/4-inch meter	13.60	
1-inch meter	17.70	
1½-inch meter	20.20	
2-inch meter	25.50	
3-inch meter	51.00	
4-inch meter	74.00	
6-inch meter	128.00	
8-inch meter	170.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. A new applicant for service shall advance an amount equal to the service charge for a period of twelve months. This advance will be credited to applicant's account against which charges for water service will be debited until the advance is depleted. When no credit remains aplicant will be billed at the monthly rate above. No refund will be made upon discontinuation of service if less than twelve continuous months.

2. Due to undercollection in the balancing account an additional $ 0.12 per 100 cubic feet of water usage is to be applied to the quantity rates to amortize the undercollection until June 30, 1987.

(END OF APPENDIX A-1)

APPENDIX B-1

SOUTHERN CALIFORNIA WATER COMPANY

CLEARLAKE DISTRICT

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	
SCHEDULE CL-1A Geneal Metered Service	1985	1986
Service Charges:		
For 5/8 x 3/4-inch meter	$ 1.30	$ .60
3/4-inch meter	1.50	.70
1-inch meter	2.00	.90
1½-inch meter	2.20	1.10
2-inch meter	3.00	1.00
3-inch meter	6.00	2.00
4-inch meter	8.00	4.00
6-inch meter	14.00	7.00
8-inch meter	19.00	9.00
Quantity Rates:		
For the first 300 cu. ft., per 100 cu. ft.	.026	.046
For the over 300 cu. ft., per 100 cu. ft.	.040	.074

(END OF APPENDIX B-1)

APPENDIX C-1

Page 1

SOUTHERN CALIFORNIA WATER
CLEARLAKE DISTRICT

ADOPTED QUANTITIES

Offset Items	Test Years 1984	1985
1. Purchased Power:		
Total Production - KCCF	185.7	191.7
Acre - Feet	426.3	440.1
(a) Pacific Gas & Electric Company		
Total Cost	$ 26,797	$ 27,532
KWH	355,747	367,241
Eff. Sch. Date	4/6/83	4/6/83
$/KWH (composite rate)	.07533	.07497
2. Purchased Water - KCCF	127.4	133.4
Acre - Feet	292.4	306.2
$/Acre Feet	22.50	22.50
Total Cost	$6580.00	$6890.00

ADOPTED QUANTITIES

5. Number of Service - Meter Size:

	1984	1985
5/8 x 3/4	2,143	2,213
3/4	--	--
1	4	4
1½	2	2
	2,149	2,219

6. Metered Water Sales

Range Ccf	1984 Usage Ccf	1985 Usage Ccf
0 - 3	58,700	60,600
Over 3	108,400	111,900
	167,100	172,500

7. Number of Service

	No. of Services		Usage-KCcf		Avg.Usage-Ccf/yr.	
	1984	1985	1984	1985	1984	1985
Comm. - Metered	2,146	2,216	166.4	171.8	77.5	77.5
Public Authority	3	3	0.4	0.4	132.0	132.0
Other	--	--	0.3	0.3		
Subtotal	2,149	2,219	167.1	172.5		
Private Fire Prot.	2	2				
Total	2,151	2,221				
Water Loss: 10.0%			18.6	19.2		
Total Water Produced			185.7	191.7		

APPENDIX C-1
Page 3

SO CAL WATER - CLEARLAKE DISTRICT

TAXES BASED ON INCOME

YEAR 1984

LINE NO.	ITEM	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(THOUSANDS OF DOLLARS)			
1	OPERATING REVENUES	381.0	381.0	520.4	520.4
2	O & M EXPENSES	233.2	233.2	233.8	233.8
3	TAXES OTHER THAN INCOME	20.1	20.1	20.1	20.1
4	CCFT	.0	2.1	.0	15.4
5	SUBTOTAL	253.3	255.4	253.9	269.3
6	DEDUCTIONS FROM TAXABLE INCOME				
7	TAX DEPRECIATION	27.2	34.6	27.2	34.6
8	INTEREST & MISC. DEDUCTIONS	67.5	67.5	67.5	67.5
9	BOOK TAX DEPRECIATION	.0	9.4	.0	9.4
10	LABOR BURDEN	11.6	11.6	11.6	11.6
11	AD VAL TAX & INT. EXCL.	.0	-5.5	.0	-5.5
12	PREFERRED STOCK DIV. CREDIT	.0	-.1	.0	-.1
13	SUBTOTAL DEDUCTIONS	106.3	117.5	106.3	117.5
14	NET TAXABLE INCOME FOR CCFT	21.4		160.2	
15	CCFT	2.1		15.4	
16	TOTAL CCFT	2.1		15.4	
17	NET TAXABLE INCOME FOR FIT		8.1		133.6
18	FEDERAL INCOME TAX		3.7		61.5
19	SURTAX EXEMPTION		-.2		-.2
20	FED. INCOME TAX BEFORE ADJ.		3.5		61.3
21	INVESTMENT TAX CREDIT		.0		.0
22	TOTAL FIT		3.5		61.3

Franchise	0.0
Uncollectibles	0.41%
CCFT	9.6%
FIT	46%
Net-to-Gross	2.05736

APPENDIX C-1
Page 4

SO CAL WATER - CLEARLAKE DISTRICT

TAXES BASED ON INCOME

YEAR 1985

LINE NO.	ITEM	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(THOUSANDS OF DOLLARS)			
1	OPERATING REVENUES	393.4	393.4	578.2	578.2
2	O & M EXPENSES	246.2	246.2	247.0	247.0
3	TAXES OTHER THAN INCOME	21.1	21.1	21.1	21.1
4	CCFT	.0	1.5	.0	19.1
5	SUBTOTAL	267.3	268.8	268.1	287.2
6	DEDUCTIONS FROM TAXABLE INCOME				
7	TAX DEPRECIATION	26.6	33.7	26.6	33.7
8	INTEREST & MISC. DEDUCTIONS	76.7	76.7	76.7	76.7
9	BOOK TAX DEPRECIATION	.0	15.0	.0	15.0
10	LABOR BURDEN	7.5	7.5	7.5	7.5
11	AD VAL TAX & INT. EXCL.	.0	-5.5	.0	-5.5
12	PREFERRED STOCK DIV. CREDIT	.0	-.1	.0	-.1
13	SUBTOTAL DEDUCTIONS	110.8	127.3	110.8	127.3
14	NET TAXABLE INCOME FOR CCFT	15.3		199.3	
15	CCFT	1.5		19.1	
16	TOTAL CCFT	1.5		19.1	
17	NET TAXABLE INCOME FOR FIT		-2.7		163.7
18	FEDERAL INCOME TAX		-1.2		75.3
19	SURTAX EXEMPTION		-.2		-.2
20	FED. INCOME TAX BEFORE ADJ.		-1.4		75.1
21	INVESTMENT TAX CREDIT		.0		.0
22	TOTAL FIT		-1.4		75.1

(END OF APPENDIX C-1)

APPENDIX D-1

SOUTHERN CALIFORNIA WATER CO.
CLEARLAKE DISTRICT

Comparisons of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1984.

General Metered Service
(5/8 x 3/4-inch meters)

Monthly Usage	At Present Rates	At Authorized Rates	Percent Increase
(Cubic Feet)			
300	$ 9.26	$ 14.55	57.13%
500	12.18	17.55	44.09
646)Average)	14.31	14.73	37.88
1,000	19.48	25.04	28.54
2,000	34.08	40.02	17.43
3,000	48.68	55.00	12.98
5,000	77.88	84.96	9.09
10,000	128.38	159.86	24.52

(END OF APPENDIX D-1)

APPENDIX A-2
Page 1
SOUTHERN CALIFORNIA WATER COMPANY

CALIPATRIA-NILAND DISTRICT

Schedule No. CN-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

City of Calipatria and community of Niland, and adjacent territory in Imperial County.

RATES

Quantity Rates:	Per Meter Per Month	
For the first 300 cu. ft., per 100 cu. ft.	$ .576	(I)
For all over 300 cu. ft., per 100 cu. ft.	.819	

Service Charge:

For 5/8x 3/4-inch meter	11.60	
3/4-inch meter	20.20	
1-inch meter	24.60	
1½-inch meter	33.00	
2-inch meter	44.00	
3-inch meter	60.00	
4-inch meter	133.00	
6-inch meter	226.00	
8-inch meter	303.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

SOUTHERN CALIFORNIA WATER COMPANY

CALIPATRIA-NILAND DISTRICT

Schedule No. CN-2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

City of Calipatria and community of Niland, and adjacent territory in Imperial County.

RATES

	Per Service Connection Per Month	
1. For each single unit of occupancy, with inside plumbing, served through a 3/4-inch service connection	$ 32.10	(I)
2. For each single unit of occupancy, with inside plumbing, served through a 1-inch service connection	39.75	
3. For each additional unit of occupancy, with inside plumbing, on the same premises and served from the same service connection of 1 or 2 above	17.25	
4. For each single unit of occupancy, without inside plumbing, served through a 3/4-inch service connection	15.90	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not longer 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 either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. CN-1, General Metered Service.

(END OF APPENDIX A-2)

APPENDIX B-2

SOUTHERN CALIFORNIA WATER COMPANY

CALIPATRIA-NILAND DISTRICT

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 1-1-85	1-1-86
SCHEDULE CN-1 General Metered Service		
Service Charges:		
For 5/8 x 3/4-inch meter	$ 2.30	$ (.35)
3/4-inch meter	4.00	(.60)
1-inch meter	4.90	(.70)
1½-inch meter	6.60	(1.00)
2-inch meter	9.00	(1.50)
3-inch meter	12.00	(2.00)
4-inch meter	26.00	(3.00)
6-inch meter	45.00	(6.00)
8-inch meter	60.00	(9.00)
Quantity Rates:		
For the first 300 cu. ft., per 100 cu. ft.	.072	(.015)
For the over 300 cu. ft., per 100 cu. ft.	.103	(.022)
Schedule CN-2 General Flat Rate Service		
1. For each single unit of occupancy, with inside plumbing, served through a 3/4-inch service connection	$ 4.60	0.00
2. For each single unit of occupancy, with inside plumbing, served through a 1-inch service connection	5.75	0.00
3. For each additional unit of occupancy, with inside plumbing, on the same premises and served from the same service connection of 1 or 2 above	2.45	0.00
4. For each single unit of occupancy, without inside plumbing, served through a 3/4-inch service connection	2.30	0.00

(END OF APPENDIX B-2)

APPENDIX C-2
Page 1
SOUTHERN CALIFORNIA WATER
CALIPATRIA - NILAND

ADOPTED QUANTITIES

Offset Items	Test Years 1984	1985
1. Purchased Power:		
Total Production - KCCF	787.4	791.4
Acre-Feet	1807.6	1816.8
Electric:		
(a) Imperial Irrigation District		
Total Cost	$31,995	$32,181
KWH	442528	445107
EFF Sch. Date	2/1/83	2/1/83
$/kwh Used (composite rate)	.0723	.0723
Gas:		
(b) Southern California Gas		
Total Cost	$ 1,162	$ 1,162
Therms	1535	1535
Eff. Sch. Date	2/1/83	2/1/83
$/Term (composite rate)	0.757	0.757
2. Purchased Water: KCCF	787.4	791.4
Acre Feet	1807.6	1816.8
$/AC FT.	8.00	8.00
Eff. Sch. Used	2/1/83	2/1/83
Total Cost	$14,461.	$14,534

APPENDIX C-2
Page 2
CALIPATRIA-NILAND

ADOPTED QUANTITIES

5. Number of Service-Meter size:

	1984	1985
5/8 x 3/4	52	55
3/4	--	--
1	23	25
1½	11	12
2	17	18
3	2	2
4	2	2
6	1	1
8	--	--
	108	115

6. Metered Water Sales

Range Ccf	1984 Usage-Ccf	1985 Usage-Ccf
0 - 200	68,800	72,800
Over 200	36,600	36,900
	105,400	109,700

7. Number of Service

	No. of Services 1984	No. of Services 1985	Usage-KCcf 1984	Usage-KCcf 1985	Avg.Usage-Ccf/yr. 1984	Avg.Usage-Ccf/yr. 1985
Comm. - Metered	89	96	55.2	59.5	620.3	620.3
Public Authority	11	11	29.5	29.5	2,686.0	2,686.0
Industrial	8	8	20.9	20.7	2,584.0	2,584.0
Subtotal	108	115	105.4	109.7		
Comm. Flat	923	921	603.9	602.6		
Private Fire Prot.	3	3		-		
Total	1,034	1,039	709.3	712.3		
Water Loss: 10.0%			78.1	79.1		
Total Water Produced			787.4	791.4		

APPENDIX C-2
Page 3
CALIPATRIA - NILAND DISTRICT

Type of Service

1..... For each single unit of occupancy, with inside plumbing, served through a 3/4 inch service connection .....

2..... For each single unit of occupancy, with inside plumbing, served through a 1 inch service connection .....

3..... For each additional unit of occupancy, with inside plumbing, on the same premises and served from the same service connection of 1 or 2 above .....

4..... For each single unit of occupancy, without inside plumbing, served through a 3/4 inch service connection .....

Number of Services - Flat Rate (by above types)

	1984	1985
Type 1	842	840
Type 2	29	29
Type 4	5	5
Type 1 and 3	41	41
Type 1 and 2 Type 3	3	3
Type 1 and 4 Type 3	3	3
	923	921

APPENDIX C-2
Page 4

SOUTHERN CALIFORNIA WATER COMPANY

CALIPATRIA-NILAND DISTRICT
Taxes Based on Income
Year 1984

LN NO.	Item	Adopted Rates CCFT (A)	Adopted Rates FIT (B)	Authorized Rates CCFT (C)	Authorized Rates FIT (D)
		(Thousands in Dollars)			
1	Operating Revenues	327.1	327.1	524.4	524.4
2	O + M Expenses	237.5	237.5	240.4	240.4
3	Taxes Other Than On Income	15.6	15.6	15.6	15.6
4	CCFT	.0	-3.9	.0	14.8
5	Subtotal	253.1	249.2	256.0	270.8
6	Deductions From Taxable Income				
7	Tax Depreciation	49.1	45.8	49.1	45.8
8	Interest & Misc. Deductions	62.2	62.2	62.2	62.2
9	Book Tax Depreciation	.0	5.4	.0	5.4
10	Labor Burden	3.2	3.2	3.2	3.2
11	Ad Val Tax & Int. Excl.	.0	-1.3	.0	-1.3
12	Preferred Stock Div. Credit	.0	-.1	.0	-.1
13	Subtotal Deductions	114.5	115.2	114.5	115.2
14	Net Taxable Income for CCFT	-40.5		153.9	
15	CCFT	-3.9		14.8	
16	Total CCFT	-3.9		14.8	
17	Net Taxable Income For FIT		-37.3		138.4
18	Federal Income Tax		-17.2		63.7
19	Surtax Exemption		-.2		-.2
20	Fed. Income Tax Before Adj.		-17.4		63.5
21	Investment Tax Credit		.0		.0
22	Total FIT		-17.4		63.5

Franchise	1.06%
Uncollectibles	0.41%
CCFT	9.6%
FIT	46%
Net-to-Gross	2.07898

APPENDIX C-2
Page 5

SOUTHERN CALIFORNIA WATER COMPANY
CALIPATRIA-NILAND DISTRICT

TAXES BASED ON INCOME
Year 1985

LN NO.	Item	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(Thousands of Dollars)			
1	Operating Revenues	330.6	330.6	549.4	549.4
2	O + M Expenses	248.9	248.9	252.1	252.1
3	Taxes Other Than Income	16.7	16.7	16.7	16.7
4	CCFT	.0	-5.3	.0	-5.3
5	Subtotal	265.6	260.3	268.8	284.2
6	Deductions From Taxable Income				
7	Tax Depreciation	50.1	43.4	50.1	43.4
8	Interest & Misc. Deductions	66.5	66.5	66.5	66.5
9	Book Tax Depreciation	.0	7.5	.0	7.5
10	Labor Burden	3.5	3.5	3.5	3.5
11	Ad Val Tax & Int. Excl.	.0	-1.3	.0	-1.3
12	Preferred Stock Div. Credit	.0	-.1	.0	-.1
13	Subtotal Deductions	120.1	119.5	120.1	119.5
14	Net Taxable Income for CCFT	-55.1		160.5	
15	CCFT	-5.3		15.4	
16	Total CCFT	-5.3		15.4	
17	Net Taxable Income for FIT		-49.2		145.7
18	Federal Income Tax		-22.6		67.0
19	Surtax Exemption		-.2		-.2
20	Fed. Income Tax Before Adj.		-22.8		66.8
21	Investment Tax Credit		.0		.0
22	Total FIT		-22.8		66.8

(END OF APPENDIX C-2)

APPENDIX D-2

SOUTHERN CALIFORNIA WATER COMPANY

CALIPATRIA-NILAND DISTRICT

Comparisons of typical bills for residential metered customers of various usage level and average level at preset and authorized rates for the year 1984.

General Metered Service
(5/8 x 3/4-inch meters)

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
300	$ 11.63	$ 13.33	14.62%
500	12.67	14.97	18.10
1,000	15.28	19.06	24.73
2,000	20.50	27.25	32.92
3,000	25.72	35.44	37.78
5,000	36.16	51.82	43.30
10,000	62.26	92.77	49.00

(END OF APPENDIX D-2)

SOUTHERN CALIFORNIA WATER COMPANY

OJAI DISTRICT

Schedule No. OJ-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service except public parks.

TERRITORY

Ojai and vicinity, Ventura County.

RATES

Quantity Rates:	Per Meter Per Month	
First 300 cu. ft., per 100 cu. ft.	$ .699	(I)
Over 300 cu. ft., per 100 cu. ft.	.983	
Service Charge:		
For 5/8 x 3/4-inch meter	3.75	
3/4-inch meter	5.40	
1-inch meter	7.40	
1½-inch meter	9.70	
2-inch meter	13.00	
3-inch meter	26.00	
4-inch meter	34.00	
6-inch meter	54.00	
8-inch meter	82.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

Special Condition

1. Due to the overcollection in the balance account, a reduction of $0.068 per Ccf of water usage is to be applied to the Quantity Rates to amortize the overcollection until June 30, 1985.

SOUTHERN CALIFORNIA WATER COMPANY

OJAI DISTRICT

Schedule No. OJ-3M

SPECIAL IRRIGATION METERED SERVICE

APLICABILTIY

Applicable to ten specific parcels of land identified on Special Irrigation Metered Service Tariff Area map.

TERRITORY

Ojai and vicinity, Ventura County.

RATES

Quantity Rates:

Casitas Municipal Water District agricultural non-prime rates as amended from time to time.

Wheeling Surcharge:	Per Meter Per Month	
For 2-inch meter	$ 30.00	(I)
For 4-inch meter	32.00	(I)

The Service Charge is a Southern California Water Company charge for transporting Casitas irrigation water to said ten specific parcels of land, which charge is to be added to the charges computed at the Casitas MWD rates.

SOUTHERN CALIFORNIA WATER COMPANY

OJAI DISTRICT

Schedule No. OJ-7ML

METERED PUBLIC PARK SERVICE

Applicability

Applicable to all metered water service furnished to public parks.

Territory

Ojai and vicinity, Ventura County.

Rates

Quantity Rates:	Per Meter Per Month	
For all water delivered, per 100 cu. ft.	.764	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	3.25	
3/4-inch meter	4.30	
1-inch meter	5.90	
1½-inch meter	7.85	
2-inch meter	10.50	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rate.

(END OF APPENDIX A-3)

APPENDIX B-3

SOUTHERN CALIFORNIA WATER COMPANY

OJAI DISTRICT

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 1985	1986
SCHEDULE OJ-1 General Metered Service		
Service Charges:		
For 5/8 x 3/4-inch meter	$ .15	$ .05
3/4-inch meter	.20	.10
1-inch meter	.30	.10
1½-inch meter	.30	.30
2-inch meter	.50	0.00
3-inch meter	1.00	0.00
4-inch meter	1.00	1.00
6-inch meter	2.00	1.00
8-inch meter	3.00	2.00
Quantity Rates:		
For the first 300 cu. ft., per 100 cu. ft.	.019	.016
For the over 300 cu. ft., per 100 cu. ft.	.027	.023
Schedule OJ-3M Private Fire Protection Service		
Rates:		
For each 2-inch meter	1.00	1.00
For each 4-inch meter	1.00	1.00
Schedule OJ-7ML Private Fire Hydrant Service		
Quantity Rates:		
For all water delivered, per ccf	0.022.	0.022
Service Charge:		
For 5/8 x 3/4-inch meter	0.10	.10
3/4-inch meter	0.15	0.15
1-inch meter	0.15	0.15
1½-inch meter	0.25	0.25
2-inch meter	0.30	0.30

(END OF APPENDIX B-3)

APPENDIX C-3

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SOUTHERN CALIFORNIA WATER
OJAI DISTRICT

ADOPTED QUANTITIES

Offset Items	Test Years 1984	1985
1. Purchased Power:		
Total Production - KCCF	796.3	801.2
Acre-Feet	1828.1	1839.3
Electric:		
(a) Southern California Edison		
Total Cost	$ 130,800	$ 131,300
KWH	1,738,253	1,748,383
Eff. Sch. Date	2/2/83	2/2/83
$/KWH (composite rate)	.07523	.07513
2. Purchased Water: KCCF	124.2	125.0
Acre-Feet	285.1	287.0
$/CCF (composite rate)	0.413	0.413
Total Cost	$ 51,295	$ 51,625

ADOPTED QUANTITIES

6. Number of service - meter size	1984	1985
a. General		
5/8 x 3/4	1,805	1,818
3/4	178	179
1	346	348
1½	61	61
2	87	87
3	2	2
4	1	1
6	1	1
	2,481	2,497
b. Public Parks - Contract		
5/8 x 3/4	6	6
3/4	1	1
1	2	2
1½	1	1
2	4	4
	14	14
c. Irrigation		
2	3	3
4	1*	1*
	4	4

Metered Water Sales

a. General Range Ccf	1984 Usage Ccf	1985 Usage Ccf
0 - 3	95,400	96,000
Over 3	598,600	602,400

b. Public Parks Range Ccf	1984 Usage Ccf	1985 Usage Ccf
All Quantities	9,900	9,900

c. Irrigation Range Ccf	1984 Usage Ccf	1985 Usage Ccf
All Quantities	12,800	12,800

7. Number of Service	No. of Services 1984	No. of Services 1985	Usage-KCcf 1984	Usage-KCcf 1985	Avg. Usage-Ccf/yr. 1984	Avg. Usage-Ccf/yr. 1985
Comm. - Metered	2,461	2,477	672.2	676.6	273.2	273.2
Public Authority	20	20	21.8	21.8	1,090.0	1,090.0
Irrigation	4	4	12.8	12.8	3,200.0	3,200.0
Contract	14	14	9.9	9.9	707.1	707.1
Subtotal	2,499	2,515	716.7	721.1		
Private Fire Prot.	11	11				
Total	2,510	2,526				
Water Loss: 10.0%			79.6	80.1		
Total Water Produced			796.3	801.2		

* Involves 3 meters

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SOUTHERN CALIFORNIA WATER COMPANY
OJAI DISTRICT

TAXES BASED ON INCOME
Year 1984

LN NO.	Item	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(Thousands of Dollars)			
1	Operating Revenues	642.9	642.9	792.4	792.4
2	O + M Expenses	431.8	431.8	435.0	435.0
3	Taxes Other Than Income	26.2	26.2	26.2	26.2
4	CCFT	.0	4.1	.0	18.2
5	Subtotal	458.0	462.1	461.2	479.4
6	Deductions From Taxable Income				
7	Tax Depreciation	61.0	41.7	61.0	41.7
8	Interest & Misc. Deductions	76.3	76.3	76.3	76.3
9	Book Tax Depreciation	.0	11.4	.0	11.4
10	Labor Burden	4.5	4.5	4.5	4.5
11	Ad Val Tax & Int. Excl.	.0	-4.2	.0	-4.2
12	Preferred Stock Div. Credit	.0	-.1	.0	-.1
13	Subtotal Deductions	141.8	129.6	141.8	129.6
14	Net Taxable Income for CCFT	43.1		189.4	
15	CCFT	4.1		18.2	
16	Total CCFT	4.1		18.2	
17	Net Taxable Income For FIT		51.2		183.4
18	Federal Income Tax		23.6		84.4
19	Surtax Exemption		-.3		-.3
20	Fed Income Tax Before Adj.		23.3		84.1
21	Investment Tax Credit		.0		.0
22	Total FIT		23.3		84.1

Franchise	1.6%
Uncollectibles	0.47%
CCFT	9.6%
FIT	46%
Net-to-Gross	2.092286

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SOUTHERN CALIFORNIA WATER COMPANY
OJAI DISTRICT

TAXES BASED ON INCOME
Year 1985

LN NO.	ITEM	ADOPTED RATES CCFT (A)	ADOPTED RATES FIT (B)	AUTHORIZED RATES CCFT (C)	AUTHORIZED RATES FIT (D)
		(Thousands in Dollars)			
1	Operating Revenues	647.6	647.6	821.4	821.4
2	O + M Expenses	446.0	446.0	449.0	449.7
3	Taxes Other Than Income	26.4	26.4	26.4	26.4
4	CCFT	.0	2.6	.0	18.9
5	Subtotal	472.4	475.0	476.1	495.0
6	Dedcutions From Taxable Income				
7	Tax Depreciation	60.8	39.4	60.8	39.4
8	Interest & Misc.	81.1	81.1	81.1	81.1
9	Book Tax Depreciation	.0	13.5	.0	13.5
10	Labor Burden	6.1	6.1	6.1	6.1
11	Ad Valorem Tax & Int. Excl.	.0	-4.2	.0	-4.2
12	Preferred Stock Div. Credit	.0	-.1	.0	-.1
13	Subtotal Deductions	148.0	135.8	148.0	135.8
14	Net Taxable Income for CCFT	27.2		197.3	
15	CCFT	2.6		18.9	
16	Total CCFT	2.6		18.9	
17	Net Taxable Income for FIT		36.8		190.6
18	Federal Income Tax		16.9		87.7
19	Surtax Exemption		-.3		-.3
20	Fed Income Tax Before Adj.		16.6		87.4
21	Investment Tax Credit		.0		.0
22	Total FIT		16.6		87.4

(END OF APPENDIX C-3)

APPENDIX D-3

SOUTHERN CALIFORNIA WATER COMPANY

OJAI DISTRICT

Comparisons of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1984.

General Metered Service
5/8 x 3/4-inch meters

Monthly Usage	At Present Rates	At Authorized Rates	Percent Increase
(Cubic Feet)			
300	$ 3.94	$ 5.64	43.18%
500	5.57	7.55	35.66
1,000	9.64	12.33	27.97
2,000	17.78	21.89	23.15
2,280	20.03	24.54	22.51
3,000	25.92	31.45	21.36
5,000	42.20	50.57	19.85
10,000	82.90	98.37	18.67

(END OF APPENDIX D-3)

VI - INFORMAL PUBLIC MEETINGS

The hearing in this matter was preceded by informal public meetings in each of the four districts. The meetings were conducted by applicant and Commission staff to provide customers an opportunity to express their views and to give applicant an opportunity to explain its request and respond to customer questions in an informal setting. Notice of the meetings was sent to customers by mail.

For the Bay District, the meeting was held on November 7, 1983 at 7:30 p.m. in West Pittsburg. Twenty customers attended. They expressed opposition to any increase so long as water quality is not improved and described unpleasant smells and dirty water.

For the Clearlake District, the meeting was held on November 9, 1983 at 7:30 p.m. in Clearlake Park. Sixty-six customers attended. Many customers expressed opposition to the magnitude of the proposed increase and most had complaints about the water quality, especially the foul smell in September and October. There were also complaints about slow or incomplete maintenance. The California Department of Health Services (DHS) presented the Commission with a list of recommended improvements including turbidity alarms for the two filtration plants, a main replacement program, and a study of the objectionable smells and tastes. All these programs are now under way.

For the Ojai District, the meeting was held at 7:30 p.m. on November 15, 1983 in Ojai. Five customers attended. Two complained of the large number of main breaks and leaks and recommended more maintenance and an accelerated replacement program. One complained of occasional dirt in his water.

For the Calipatria-Niland District, the meeting was held at 7:30 p.m. on November 17, 1983 in Niland. About 220 customers attended. Most objected to the very large increase proposed (over 82% in 1984 for the average residential customer). Government officials claimed that the customers could not afford

the proposed rates, pointing out that about 40% of the local population is unemployed and about 70% receive some kind of government assistance. Many also complained about water quality, particularly the high sodium content which is particularly unhealthful for the elderly who comprise a large segment of the population. The result of a laboratory analysis of local water showing a sodium content of 124 milligrams per liter was presented by one customer.

VII - PUBLIC HEARINGS

Because of the number of service complaints, further public hearings were held before the ALJ in three of the four districts.

Calipatria-Niland

Fifty-two people attended the daytime public hearing in Calipatria. Of those, 29 indicated that they purchased water for drinking. Those that made statements variously complained that the water tastes bad, leaves a residue on dishes when they are rinsed, corrodes pipes, has a strong chlorine smell, and is too high in sodium.

Most people mentioned the very high level of unemployment and high percentage of retired people on fixed incomes in the area. They claimed that these people would be unable to shoulder the burden of the increase requested by applicant.

There is no question that the water in Calipatria-Niland is not the most aesthetically pleasing water. This district is situated near the southern end of the Imperial Valley. The water is purchased from the Imperial Irrigation District which gets it from the Colorado River. By the time the river gets into that part of the State, the water has been

used, added to, and reused countless times. In fact, because of the nature of its water source SCWC had to install filtration facilities in both Calipatria and Niland in order to meet Federal Clean Water Act requirements which, in California, are enforced by the DHS. SCWC also chlorinates the water to assure that the bacterial level remains in conformance with DHS's requirements. According to the regular water tests submitted in evidence by SCWC, it does meet State and Federal water quality standards. Unfortunately for those elderly persons and others who must minimize their salt intake, the State sets no limit for sodium in water supplies.

Further, as applicant's president pointed out to the people of Calipatria-Niland, SCWC already has a per customer investment of over $1,000--one of the highest cost systems SCWC has. That is why rates are as high as they are now and any additional treatment facilities would simply raise those rates even further.

Furthermore, it is doubtful that any treatment could be pursued that would appreciably improve the sodium problem. When the ALJ contacted the regional office of DHS, which has jurisdiction over water purveyors in Imperial County, she was informed by engineer Kirk Campbell that in recent tests of Calipatria-Niland water sodium levels had shown levels of 126 to 142 milligrams per cubic meter and that medical professionals often recommend heart patients avoid water with more than 10 or 20 milligrams per cubic meter. Campbell went on to point out that the reason no standard for sodium exists in the Safe Drinking Water Act is that to date the Environmental Protection Agency (EPA) knows of no effective affordable way of removing it.

Given this information and our further knowledge that the two filtration facilities have had the added benefit of greatly improving water pressure in both communities, we believe any further water treatment would create an unacceptable burden for the ratepayers of these communities.

Clearlake

Attendance at the public hearing in Clearlake was numerically similar to that in Calipatria. Also, like Calipatria, the Clearlake community is comprised of a very large component of retired people on small fixed incomes and families with low incomes. As a result, the majority of those who spoke described their inability to cope with increasingly large utility bills. There were service complaints too.

The water in this district is drawn from the lake, then treated and distributed. Much of the system is quite old and some of the pipes are laid very close to the surface of the ground. Further, in the summer the lake is often extensively invaded by algae blooms. These blooms create taste and odor problems that are ameliorated by SCWC with chlorination. This sometimes leaves a strong chlorine taste. Many residents mentioned this and stated that they bought bottled water for drinking in summer. Donald Saddoris, SCWC's northern division manager, explained in his testimony during the evidentiary hearing that SCWC is participating with several other utilities that draw water from the lake and with the DHS on a water treatment study designed to deal more effectively with this taste and odor problem.

Another service complaint was that water reaches as much as 100° F. in summer because water pipes are so close to ground surface. According to the testimony of Donald Twomley, SCWC's manager of operations, the shallow mains that allow water to heat up in summer are among those scheduled for replacement in the three-year capital improvement program planned for Clearlake. These replacements will also alleviate general pressure problems, which several complained about, he says.

Two people described an incomplete restoration of San Joaquin Road after the main was replaced there. Saddoris explained that the problem was the result of a dispute between applicant and a contractor. He said the company was presently in the process of hiring another contractor to finish the work.

Twomley also testified that Exhibit 10 shows that this district meets or exceeds all physical and mineral content standards set out by DHS. He also explained that the reason one person was occasionally receiving no water was that his house is 115 feet higher than the meter and the pressure pump the customer has is located near the house rather than at the meter where it would be more effective. Twomley stated he would explain this to the customer and suggest it be moved. One person complained of excessive sand which required him to clean his faucets very often. However, Exhibit 10 indicates that the sand levels are apparently within the DHS's requirements.

We are satisfied with the responses of SCWC to each of these service problems and do not think the complaints warrant further action in Clearlake.

Bay District

The public hearing for Bay District was held in the City Council Meeting Room in Pittsburg. Bay District primarily serves the community of West Pittsburg, which is adjacent to Pittsburg. Only five or six people attended the hearing. Four of them spoke. One spoke of others who had complained to him of discoloration, a fishy smell, the smell of chlorine and sand and mud.

A member of the County Board of Supervisors stated that water quality is always an issue at town meetings he holds in the community. He suggested that even though the water meets the "technical legal requirements of safe drinking water" the consumers are dissatisfied with it and, therefore, any rate increase should be tied to water quality improvements. The supervisor turned over several letters and records of telephoned complaints about Bay District received by his office.

One customer asked about the company's deposit policy, which she had apparently misunderstood. No other service complaints were made. It is clear from the correspondence file for this district that the same kinds of taste and odor problems exist here as exist in the Clearlake District. There are also many complaints of saltiness in the summertime.

Bay District takes its water from the Contra Costa Canal which is subject to fluctuations in the Sacramento-San Joaquin delta which empties into the ocean via the San Francisco Bay. Its location accounts for seasonal fluctuation in salt content as well as mineral and biological content.

As to the correspondence from the county supervisor, SCWC checked each item and concluded that all but one related to problems which had been brought to the attention of SCWC and the Commission by the supervisor in 1982 and had been successfully resolved. The final item, having to do with rude treatment of a customer in August 1983, was investigated by the district superintendent who personally visited the customer and reports that the problem has been satisfactorily resolved.

Again, as with the prior two districts, Bay District does not have the highest quality water, but it does meet all standards for purity established by the State, and we will not require more. We are satisfied that all service complaints involving Bay District have been reasonably resolved.

Ojai District

The director of public works for the City of Ojai, Kenneth Gilbert, appeared at the hearing in Los Angeles on January 20 to make a statement. While he supported staff's recommendation, he complained of much wasted water and street damage due to unrepaired leaks. He requested that a more ambitious main replacement program be undertaken in Ojai, suggesting $100,000 per year amortized over five years. He claimed the city council would go along with a rate increase 3% higher than recommended by staff if the money were used in this way. He also requested a better preventive maintenance program, suggesting that it would require additional personnel.

While we see no basis for the $100,000 figure used by Gilbert, we agree that a main replacement program should be established and followed in the Ojai District. Without further facts to support it, we are not willing to agree that the district needs further personnel to meet its maintenance needs.

VIII - NEED FOR RATE RELIEF

In each of the four applications applicant estimates a rate of return based on present rates and finds it to be depressed. Applicant contends that this is "mainly caused by increases in the costs of purchased water and power, labor, postage, payroll taxes, income taxes, liability insurance, depreciation, increased rate base, and increased cost of capital since these costs were last considered by the Commission in setting rates."

IX - RATE OF RETURN

Applicant asks for a 17% return on equity in each application. Staff recommends a range of between 14.5% and 15% as a reasonable rate of return. Applicant argues that staff's recommendation fails to recognize the difference in the risks and benefits of a thinly capitalized company such as SCWC as compared to other comparable companies. Thin capitalization refers to capitalization having a relatively higher percentage of debt to equity than the typical water utility. Applicant claims that thin capitalization results in the following:

1. A lower cost of total capital at a higher risk to investors;
2. Investors expecting to earn a higher return on a relatively higher risk investment;
3. A savings in capital costs over what a typical utility would experience; and
4. Less likelihood of achieving authorized rate of return.

As a consequence of these factors, applicant states that a thinly capitalized company can (and must) allocate a portion of the savings in capital costs to its equity investors and still will not show any higher customer costs than customers would otherwise pay with respect to the rate base on a less highly capitalized utility.

By example, applicant claims (see Exhibits 24 and 31) that if we granted it a rate of return of 16.30%, customers would not pay any higher amount for use of capital than the customers of California Water Service and San Jose Water Company pay as a result of the 14.5% rate of return granted to each of them, respectively, in D.83-12-037 and D.84-01-042. This is so, applicant claims, because these two utilities have much higher equity ratios than does SCWC.

Staff witness on this revenue requirements issue, Christopher Blunt, agreed in his testimony that investors do expect a slightly higher return from a highly leveraged (greater percentage of debt to equity, i.e. thinly capitalized) company, but added that for a regulated industry expectations are not for very much more. He claimed that the amounts SCWC was seeking overstated such an expectation and he stated that his recommendation reflects the slightly higher return expectation.

Furthermore, staff points out that SCWC has failed to consider possible higher interest charges resulting from perceived greater financial risk associated with thinner equity.

We are persuaded by staff's analysis of this issue. We are not persuaded by SCWC's claims about the effects of thin capitalization, and we believe SCWC's claims are overstated. Furthermore, we see no good reason for rewarding management's decision to be thinly capitalized. We are also aware of the fact that a 14.50% return on equity was granted for several similar major water utilities in California recently and their service levels were much better than that of these four districts. Although we consider the service levels for these districts are satisfactory, we find the service levels to be somewhat below average. Furthermore, granting a higher return on equity for thin equity will encourage SCWC to remain that way and it would not be in the best interest of its ratepayers or its shareholders because such thin equity capital will place itself at unnecessarily risky financial position. Therefore, we conclude that the low end of staff's recommended range--14.50%--is the most reasonable rate of return on equity and we will adopt that figure.

Rates of return for the test years are adopted as follows:

Test Period 1984, 1985, and 1986

Component	Capitalization Ratios	Cost	Weighted Cost
1984			
Long-term Debt	49.00%	9.65	4.73%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.23	1.07
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.28%
1985			
Long-term Debt	49.00%	10.06	4.93%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.65	1.12
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.53%
1986			
Long-term Debt	49.00%	10.31	5.05%
Bank Loans	1.00	11.00	0.11
Preferred Stock	13.00	8.80	1.14
Common Stock Equity	37.00	14.50	5.37
Total	100.00%		11.67%

X - RESULTS OF OPERATIONS

To evaluate the need for a rate increase, witnesses for applicant and staff have analyzed and estimated for test years 1984 and 1985 applicant's operating revenues, operating expenses, and rate base for each district. For the most part, applicant stipulated to the reasonableness of staff's estimates which were based in part on later information than that available when applicant finalized its basic studies. The areas of disagreement and the summaries of earnings which we adopt are set forth below.

A. Customer Growth in Bay and Clearlake Districts

Applicant and staff used different means of projecting growth for commercial metered customers in Bay and Clearlake districts. Consequently their revenue projections differ. Staff's witness testified that he estimated these customers for 1984 and 1985 based on average recorded services for the five-year period of 1978 to 1982. The average increase for Clearlake District was 70 customers per year; the average for Bay District was 111 customers per year.

Applicant's methodology is unclear but was somehow projected from recorded data for November and December 1983. Applicant complains that the 1983 recorded data belie the accuracy of staff's method. We agree that more recent data should be reflected. Therefore, using the table which applicant extrapolated from the testimony and attached to its post-hearing brief and projecting a similar linear growth for average number of customers for the unreported month of December, we derive an average number of customers for 1983 of 3,116 for

Bay District and 2,076 for Clearlake District. By adding the average growth calculated by staff to these more recent figures we derive what appears to be a more accurate projection of growth which we will adopt. The figures are shown in the following tabulation:

Projected Commercial Metered Customer Growth

	1984			1985		
District	Staff	Company	Adopted	Staff	Company	Adopted
Bay	3,300	3,194	3,227	3,411	3,263	3,338
Clearlake	2,195	2,108	2,146	2,265	2,141	2,216

B. Filter Surface Washers in Bay District

Another area of disagreement is whether the cost of filter surface washers should be included in rate base for Bay District in 1984 and 1985. These washers are devices which alleviate the problem of "mud ball" accumulation during the backwashing of the filter sand.

According to applicant's division manager, Don Saddoris, backwashing is a reversal of water flow back through the filter sand to break up clay deposits and unsettleable material which accumulate on the surface of the sand ultimately causing a head loss in the filter. Generally, however, backwashing alone is insufficient to break up all the particles. The ones that are not broken up form into mud balls which get larger and larger until, if they are not removed, they eventually break through the filter letting sand into the system.

One way of removing these mud balls is manually. This requires a worker to climb into a cylinder of 6 or 8 feet in diameter through a 14-inch manhole and lift out the mud balls with a sieve and hand them up to someone outside the cylinder. Another alternative is the filter surface washers. These devices are nozzles located two to four inches above the sand which come on for two to three minutes just prior to the backwash. They shoot jets of water on top of the clay causing it to break up prior to the backwash, making the backwash more efficient. Saddoris stated that surface washers eliminate the mud ball problem by 70 or 80%. He also stated he has not heard of a new filter being installed without surface washers in recent years.

Staff is of the opinion that the surface washers are unnecessary in the Bay District. This is based on a conversation which a staff witness had during a field investigation of the Bay District plant during which he was informed that the mud ball problem was caused by operator error and had virtually disappeared since a certain employee left the company and proper operating procedures were instituted.

When questioned about this at the hearing Saddoris stated that several years ago there was an employee at the Bay District plant who did not backwash often enough and therefore a major mud ball problem occurred with mud balls "maybe the size of baseballs"; but he went on to explain that even when operated correctly, there is a mud ball problem with these filters that surface washers can help alleviate.

Staff contends that if we do permit rate base to include an expenditure for surface washers, labor expense should be adjusted to reflect the labor savings realized by applicant.

We will allow the item in rate base, but we decline to adjust labor expense since the only evidence on the issue is Saddoris' testimony that some filters that do not have surface washers have to be checked at least annually and cleaning out the mud balls can take many hours of time which the employee could be devoting to other tasks.

C. Timing of Major Plant Additions in Clearlake and Ojai Districts

Applicant wishes to include all its planned main replacement costs for test years after their projected completion in Clearlake and Ojai as plant in service. Staff contends that some of these projects may not be completed on time and that there is a possibility that this money will simply be a windfall to applicant. Therefore, staff recommends that certain items be excluded from rate base at this time and that we deviate from our normal practice and authorize an advice letter offset proceeding whereby SCWC is permitted to file an advice letter requesting an offsetting increase upon timely completion of each project.

A staff witness testified that he believed the procedure to be necessary because a $15,000 retaining wall was included in Clearlake's last general rate case rate authorization, but it was not timely built. He stated that the ratepayers should not have to bear the risk of paying for projects that may not be completed as scheduled.

We would only want to implement such action where there was strong evidence that the company's projections were unreliable, since the costs and workload increase to staff and the company would otherwise be unreasonable. In this case, while the record never explained what happened to the retaining wall in Clearlake, we see no evidence that failure to accomplish projected main replacements on time is a serious problem for this company in either Clearlake or Ojai or that SCWC has ever experienced a windfall from such circumstances.

As to Clearlake, applicant's witness Twomley described what he called a "backbone" three-year main replacement program going from one end of the system to the other. The program commenced in 1983. In 1983 SCWC's estimated capital budget in Clearlake was $165,600. However, SCWC actually spent around $243,000 that year even though of this one of the projected jobs was only about 60% completed in January 1984 because of bidding problems. Two main replacement jobs are planned for 1984 in approximate amounts of $98,300 and $94,000. The first was to be work-ordered in March 1984. The 1985 projects are for $18,000 and $82,200. In addition to these, staff proposes an advice letter offset for the cost of land ($36,800) which SCWC plans to buy in 1985 in order to relocate part of a treatment plant and the cost of high turbidity alarms in both treatment plants and an automatic shutdown device for one plant estimated to total $16,000 and scheduled for work order in June 1984. Twomley testified that, in his opinion, all these projects would be done on time. As to the 1984 projects he expects the main replacement to take about three months. He further stated that the alarm and shutoff projects were moved up to 1984 after

the problem was raised by a representative of DHS at the public meeting in late 1983, noting that SCWC has a written commitment to DHS to finish these projects in 1984.

With respect to Ojai, staff recommends an advice letter offset for $49,600 in projected main replacements for 1984. Applicant's witness, Joseph Young, testified that the project is already under way, that SCWC has promised the City of Ojai that it will continue to complete the job, and that the work is necessary to bring down water loss in Ojai. Twomley testified that the 1984 phase of the project was scheduled to be work-ordered in March 1984 and would hopefully be completed by mid-year. He said that originally this project was scheduled to be done in three phases in 1983, 1984, and 1985, but when company and staff visited the site, the leaks and unexpectedly rapid deterioration of the pipe, plus input from Ojai's director of public works, Ken Gilbert, convinced SCWC to revise its budget to complete the work in 1984. Twomley stated he wrote a letter to Gilbert making a firm commitment to do the work as early in 1984 as possible. Further, Twomley pointed out that SCWC had already completed (in January 1984) a main replacement project budgeted for March 1984 in the amount of $3,000.

We are convinced by this testimony that there is no reason to believe that applicant will fail to complete these projects on time and that staff's proposal would unnecessarily burden both the company and the staff itself.

But in order to ensure that the ratepayers receive the benefits of improved service from these main replacements and other improvements, we will have the step rate increase for 1985 for the Clearlake District be subject to the completion of the two main replacement projects ($98,300 and $94,000) and turbidity alarm and automatic shutdown system ($16,000) in 1984, and the step rate

increase for 1986 be subject to the completion of the two main replacement projects ($18,000 and $82,200) and land acquisition for relocation of part of filteration Plant No. 1 ($36,000) in 1985. Similarly, the step rate increase for 1985 for the Ojai District will be subject to the completion of the Ojyama Road main replacement project ($49,600) in 1984.

Therefore, we will adopt such a rate adjustment provision and we will permit each of these plant additions to remain in rate base.

D. Water Loss - Clearlake District

Another area of disagreement raised at the hearing was applicant's estimate of unaccounted-for water. Such water is charged to the ratepayers and includes water used in filtering operations and water lost due to leaks and the like. Applicant's witness estimated Clearlake's unaccounted-for water at 16%, admitting that his figure for filtering operations was "somewhat arbitrary" since there is no accurate way of measuring this usage at present.

Staff's witness Kazemzadeh pointed out that Clearlake's unaccounted-for water estimates have gone from 30.8% in 1979 to 10% in 1980, to 18.3% in 1981. He further noted that no major main replacement was done between 1979 and 1980 that would account for the large reduction. Based on this he claimed that unaccounted-for water in Clearlake was probably not due to large losses through deteriorated mains, but rather through some other problem such as malfunctioning meters, bad bookkeeping, or some such management problem. Considering this he concluded that Clearlake did have the capacity for achieving a 10% maximum rate for unaccounted for water, and this 10% figure is a maximum acceptable figure for a system such as Clearlake.

We agree with staff's assessment of this issue. In fact, we note that one public witness in Clearlake claimed that his meter remained broken and unrepaired for eight months and that of a friend went unrepaired for six months. Therefore, we will adopt the 10% figure for unaccounted-for water.

E. Labor Expense

The record in this matter reflects a great deal of staff misunderstanding of the way SCWC accounts for labor expense. This was at least partially due to misinformation given to staff by SCWC personnel. Two issues regarding payroll remain unresolved.

1. Vacation Accrual Factor

The first issue is the proper vacation accrual factor to be used. This is a percentage of expensed income which is set aside in a liability account. It accrues to this account from pay earned while working and then is used up to pay the employee when he or she takes a vacation or holiday.

Applicant does not determine this accrual factor on an individual basis, but rather on a companywide basis (see, generally, Exhibit 19). Applicant uses a vacation accrual factor of 12%. Staff recommends that the factor only be 10.23%. Staff's witness, Wayne Koerting, testified that he determined this percentage by dividing the actual vacation taken during 1982 by the total payroll for 1982. This calculation does not account for vacation that is accrued during the year but not taken. Koerting justified this by noting that only five days vacation may be carried over one year to the next. Anything beyond that is lost if not taken and the company never pays for it. Koerting also

claimed that while staff would normally look at several years' records in order to calculate such a factor, he was unable to do so in this case because of time constraints. But, he added that he believed that since the company has about 400 employees, the number of vacation days taken in one year is "reasonably representative of that taken by the same number of employees over a number of years"

Staff witness Sung Han added that, while SCWC's accrual factor may have been derived by appropriate accounting procedures (as its witness, Christy W. Plemons, testified), for ratemaking it is necessary to reduce working cash allowance by the amount of the future liability remaining in the vacation accrual account. Since this has not been done he concludes that staff's figure is appropriate.

We find staff's explanation persuasive and we will adopt its vacation accrual factor of 10.23%.

2. Wage Escalation Factors

The second unresolved payroll issue has to do with escalation factors. Applicant used a 6% wage escalation factor without any adjustment for growth for both 1984 and 1985. Staff relied on wage escalation rates determined by our Revenue Requirements Division. For 1984, the rate is 4.3% and for 1985, it is 5.2%. An additional 0.2% is added each year to compensate for growth in the Calipatria-Niland and Ojai Districts. Similarly, 0.9% and 1.0% for 1984 and 1985 are added to the Bay District payroll and 0.7% and 0.8% for 1984 and 1985 are added to the Clearlake District payroll.

Neither staff nor applicant acquiesced to the other's calculation and neither addressed the issue in argument.

(11)

Applicant's report merely notes that "expense levels are projected on the basis of recent operating experience" (see, e.g. Exhibit 5, Chapter 5, paragraph 2). Staff points our that SCWC's average wages per employee have "outpaced both the average CPI and the California wage index for the past five years." (See, e.g. Exhibit 16, Chapter 3, paragraph 3.13.) Based on this information, we will adopt staff's escalation factors which total 4.5% in 1984 and 5.4% in 1985.

In several recent decisions we have expressed qualms about staff's reliance on cost of living indexes. In D.83-12-037, California Water Service's last rate proceeding we stated:

"Cost of living indexes are not acceptable surrogates for anticipated wage levels, in our opinion. We will, of course, accept cost of living evidence in the future, but we invite the parties to produce expanded showings on labor costs in future applications." (Mimeo, p. 21)

Earlier, in a decision involving San Gabriel Valley Water Company, we delineated the reasons for our discomfort:

"In this rate setting process, the Commission's obligation to ratepayers to maintain reasonable utility rates and high quality service is fundamental. This obligation, however, cannot be met or sustained if a utility is placed at a competitive disadvantage in skilled labor markets by allowances for forecasted wage adjustments that limit wages and salary increases to cost-of-living escalators while denying employees the opportunity to participate in productivity advances in the utility or in the economy. Our basic policy in this respect is to give maximum latitude to utility management to establish or negotiate wage and salary adjustments which are consistent with efficient management of operations, including access to skilled labor markets and the maintenance of a qualified utility workforce.

* * *

"We will adopt staff's labor escalation rate as a more reasonable reflection of required labor costs for ratesetting purposes. Adoption of the Staff's estimate, however, is by no means meant to be a ceiling that precludes or limits SGVWC from addressing its skill requirements in the context of actually establishing

or negotiating wage adjustments. The adopted results of operation do not operate as an absolute limit on wage adjustment. Actual wages may be higher or lower than our adopted escalation factors imply. For example, even if a revenue requirement is set using an inflation index for wages, real wage gains could accrue out of unexpected reductions in other cost categories or productivity gains by the company as a whole. Management retains the responsibility for setting actual wages." (D.83-10-002, Mimeo, pp. 13-14).

We are disappointed that these concerns have not been addressed by the parties in this proceeding, and hope that future records will contain explicit analysis and discussion of these issues.

F. Summaries of Earnings

Based on the foregoing, the tables which follow set forth the adopted operating results for each district for test years 1984 and 1985 at rates authorized by this decision.[1/] Table 1 shows results for the Bay District, Table 2 for Clearlake District, Table 3 for Calipatria-Niland District, and Table 4 for Ojai District.

1/ For Calipatria-Niland District, the large adopted increase for 1984 triggers our policy of phasing in annual base rate increases in excess of 50%. By holding the first test year to 50%, we will grant applicant a revenue increase of $163,600 in 1984. The difference in revenue between 50% and what would otherwise be authorized, plus interest at the adopted 11.46% rate of return for 1984, will be added to the authorized increase for Calipatria-Niland for 1985.

In addition to the rates authorized for 1984 and 1985, a third set of rates will be authorized for each of the districts to allow for attrition after test year 1985. This is in keeping with our intention that the districts of Class A water utilities will not file general rate applications more often than once in three years.

The attrition to be allowed after 1985 has an operational component and a financial component. Its financial component is the same for all districts and is the adopted estimate of financial attrition in rate of return of 0.14% between 1985 and 1986 (i.e. the difference between the rates of return of 11.67% and 11.53% for years 1986 and 1985, respectively). Its operational component, which is different for each district, is the decline in the 1984 rate of return of 11.28% to a lower level for 1985 at the rates authorized for 1984.

The following tabulation shows, by district, the operational attrition rate, combined financial-operational attrition rate, and the revenue increase necessary to offset the attrition in rate of return after test year 1985:

District	Operational Attrition	Combined Financial-Operational Attrition	Offset Revenue Increase (Step Increase)
Bay	0.33%	0.47	$10,700
Clearlake	0.74	0.88	27,100
Calipatria-Niland	0.40	0.54	14,800
Ojai	0.36	0.50	17,000

G. Amortization of Balancing Account

Staff recommends that, at the time when the decision is to be issued, if the accumulated over- or undercollection of balancing account exceeds 2% of the adopted revenue for these districts then the balance be amortized over one-year period except for the Clearlake District. For the Clearlake District, staff recommends that the undercollection on the balancing account be amortized over a three-year period to reduce the impact of such amortization. SCWC concurs with staff. Based on the undercollection balance of $45,957 for the Bay District and $59,217 for the Clearlake District as of December 31, 1983, an additional charge of $0.064 per 100 cubic feet of water usage will be applied until June 30, 1985 for the Bay District and an additional charge of $0.120 per 100 cubic feet of water usage will be applied until June 30, 1987 for the Clearlake District. Similarly, based on the overcollection balance of $48,645 as of December 31, 1983, a credit of $0.068 per 100 cubic feet of water usage will be applied until June 30, 1985 for the Ojai District.

XI - PUMP EFFICIENCY

Applicant has established a plan to test pumps not less than every two years and has a program to correct pumps that are deteriorating or fall into the "low" rating as established by efficiency tests conducted by Pacific Gas and Electric Company, Southern California Edison Company, and SCWC.

By district, staff made the following reports (Exhibits 14, 15, 16, and 17) on pump efficiencies:

Bay District - Of nine booster pumps, seven are rated excellent and two fair. Eight of the nine were tested in 1983.

Clearlake District - There are 14 booster pumps. Three are rated low, three fair, two good, and six excellent. All the pumps were tested in 1983. Two of the pumps that tested low have been designated for overhaul; the third pump that tested low is very small, only 1½ horsepower. Smaller pumps often have poorer efficiencies.

Calipatria-Niland District - There are seven booster pumps. One is rated low, two good, three excellent, and one pump on standby status is gas-powered and therefore not ratable under these standards. The pump rated low is scheduled for redesign. Two of the pumps were tested in 1983 and four in 1982.

Ojai District - There are 12 booster pumps and four well pumps. Of the booster pumps, four are rated fair, two good, five excellent, and one is new and has not been tested.

Of the well pumps, two are rated fair and two good. Eleven of the pumps were tested in 1983.

We find SCWC's plan to be sufficient to assure its pumps to be operating adequately.

XII - CUSTOMER SERVICE

In its reports (Exhibits 14 through 17), staff states that the following complaints were investigated and resolved by applicant in 1983:

Number of Complaints in 1983

District	Quality	Pressure	Billing	Miscellaneous	Total
Bay	48	21	95	8	172
Clearlake	62	10	129	27	228
Calipatria-Niland	4	14	3	33	59
Ojai	72	70	164	240	546

As to all four districts, staff observed that most of these complaints were resolved quickly and in a satisfactory manner. Therefore, staff concluded that service was satisfactory. Based on this assessment and the discussion of the informal meeting held in each district and the public hearing held in three of the districts, we agree that service is satisfactory.

XIII - RATE DESIGN

Applicant proposes no changes in its rate schedule design except in the Clearlake District. There it proposes to change its minimum rate structure for metered service to a structure which includes a service charge plus quantity rates. However, applicant proposes to make the first 300 cubic feet free of charge.

Staff agrees with the change to a service charge structure, but not the free water. Instead, staff recommends that the first 300 cubic feet be one-half the quantity rate for quantities over 300 cubic feet. Applicant has stipulated to staff's recommended design and we agree that it better reflects our conservation concerns in rate-setting.

Additionally, we agree with staff's recommendation that, due to Clearlake's large number of vacation-time customers and mobile home customers who have a small annual consumption per service connection, 60% of the revenues should be collected through the service charge. This seems like the most reasonable way of assuring that part-time users shoulder their fair share of the utility's fixed costs.

We also agree with staff's recommendation to change applicant's proposed rate design for the Ojai District somewhat so that, pursuant to our policy, the accumulated increase in lifeline rate remains 25% less than that of the average rate. Applicant has also stipulated to this change.

XIV - FINDINGS AND CONCLUSIONS

Findings of Fact

1. Rates of return of 11.28%, 11.53%, and 11.67% for applicant's rate base for 1984, 1985, and 1986, respectively, in the Bay, Clearlake, Calipatria-Niland, and Ojai districts are reasonable. The related return on common equity is a constant 14.50%.

2. Applicant's pump efficiency is satisfactory in each district.

3. Applicant's water quality in each district meets all standards established by the federal Environmental Protection Agency and by the California Department of Health Services.

4. Bay, Calipatria-Niland, and Clearlake districts all have water taste and odor problems due to their sources of supply. Applicant is taking all reasonable steps to ameliorate these problems.

5. Calipatria-Niland and Bay districts sometimes have very high levels of sodium chloride. Since there is no economically feasible technology to eliminate sodium chloride from water, applicant should not be required to take any action regarding this problem.

6. Applicant's service is adequate in each district given the circumstances described in this decision.

7. The adopted estimates of operating revenues, operating expenses, and rate base for the test years 1984 and 1985, as set forth in Tables 1, 2, 3, and 4 of this decision, together with the described additional revenue requirement for 1986 due to attrition, reasonably indicate the results of operation for applicant's Bay, Clearlake, Calipatria-Niland, and Ojai districts.

8. The adopted rate design for each district is consistent with the Commission's water conservation policies and is reasonable.

9. The adopted figures for projected customer growth in the Bay and Clearlake districts are reasonable.

10. It is appropriate to allow the cost of filter surface washers in rate base in the Bay District.

11. It is appropriate to allow costs of major plant additions planned for the Clearlake and Ojai districts to be included as plant in service after their projected completion dates without requiring applicant to file an advice letter requesting an offset upon completion of each project. But it is reasonable to have the step rate increases for 1985 and 1986 for the Clearlake District and for 1985 for the Ojai District be subject to the completion of major plant additions.

12. Clearlake District has the capacity to keep its unaccounted-for water at a 10% maximum. Therefore, the adopted 10% figure is reasonable.

13. Staff's recommended vacation accrual factor of 10.23% is reasonable for all districts.

14. Staff's recommended wage escalation factors of 4.5% for 1984 and 5.4% for 1985 are reasonable.

15. The rates of return specified in Finding of Fact 1, above, require the following increases:

District	1984		1985	
	Amount	Percent	Amount	Percent
Bay	$ 64,500	11.4%	$11,400	1.8%
Clearlake	139,500	36.6	40,700	7.6
Calipatria-Niland	197,400	60.3	19,200	3.6
Ojai	149,600	23.3	23,200	2.9

a. To mitigate the effect of the large 1984 increase in the Calipatria-Niland District, the revenue increase will be held to $163,600 in 1984 with further increases of $71,600 in 1985 and a reduction of $3,500 in 1986. Interest on the deferred portion of 1984 required revenue increase at the adopted rate of return will ensure that applicant is adequately compensated for the deferral. The other increases are reasonable.

Conclusions of Law

1. The adopted rates are just, reasonable, and nondiscriminatory for the future.

2. The application should be granted to the extent provided by the following order.

3. Because of the immediate need for additional revenue, the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company is authorized to file for its Bay, Clearlake, Calipatria-Niland, and Ojai districts, effective today, the revised rate schedules set forth in Appendix A, B, C, and D series to this decision. The effective date of the revised schedules shall be the date of the filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1984 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increase for 1985 included in Appendix A, B, C, and D series, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment for Appendix A, B, C, and D series for Bay, Clearlake, Calipatria-Niland, or Ojai, respectively, in the event that district's

rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1984, 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) 11.28%. This filing shall comply with General Order Series 96. The filing shall include a report of completion for two main replacement projects (Project 53-123 - $98,300 and Project 53-124 - $94,000) and an alarm and automatic shutdown system ($16,000) in the Clearlake District, and a letter of completion for the Cuyama Road main replacement project ($49,000) in the Ojai District. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1985, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1985, applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases for 1986 included in Appendix A, B, C, and D series, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A, B, C, and D series for Bay, Clearlake, Calipatria-Niland, or Ojai, respectively. in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1985, 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) 11.53%. This filing shall comply with General Order Series 96. The filings shall include a report of completion for the two main replacement projects (Project 51 - $18,000 and Project 53 - $82,200) and the relocation and acquisition for part of filteration plant

($36,000) for the Clearlake District. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1986, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. The application is granted as set forth above.

This order is effective today.

Dated JUL 18 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners