

Decision 87 12 G47 DEC 17 1987

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of the SOUTHERN CALIFORNIA WATER)
COMPANY (U 133-W) for an order)
authorizing it to increase rates)
for water service in its)
Wrightwood District.)

Application 87-04-069
(Filed April 29, 1987)

O'Melveny & Myers, by Thomas N. Harding, Attorney
at Law, for Southern California Water Company,
applicant.

Carol L. Matchett, Attorney at Law, and Richard
Tom, for the Public Staff Division.

OPINION

This proceeding was heard on a consolidated record with Applications (A.) 87-04-066, A.87-04-067, and 87-04-068 before Administrative Law Judge John Lemke in Los Angeles August 31 through September 3, 1987. A public hearing, held August 25 in Wrightwood, and the evidentiary hearings were noticed by Southern California Water Company (SCWC) to each customer in the district in accordance with the Commission's Rules of Practice and Procedure. The matter was taken under submission subject to the filing of concurrent briefs by October 5, 1987.

By this application, SCWC requests authority to increase rates for water service in its Wrightwood District by 15.45% or \$108,200 in 1988, by \$56,500 or 6.88% in 1989, and by \$45,900 or 5.23% in 1990.

SCWC renders public utility water service in various areas in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara, and Ventura. It also renders an electric service in its Big Bear District.

The Wrightwood District is located mainly in San Bernardino County, with a small portion lying in Los Angeles County on the north slope of the San Gabriel Mountains. Current rates were made effective January 1, 1987 as a step rate increase in accordance with Decision (D.) 85-05-053, dated May 1, 1985.

Wrightwood is primarily a mountain resort area with most of the development of the area consisting of single-family weekend and vacation cottages. Water for the district is furnished by six company-owned wells. The wells range in diameter from 8 to 20 inches, and in depth to 700 feet. As of December 31, 1986 distribution mains in the district ranged in size up to 10 inches. Storage facilities consist of six tanks with a combined total of 477,000 gallons. As of December 31, 1986 there were 2,282 customers in the district, all metered. As of beginning of year 1988, SCWC estimates its plant in service for the Wrightwood District at \$3,120,400; the staff estimate is slightly less at \$3,072,600.

Public Hearing/Customer Response

Between 50 and 60 customers attended the public hearing portion of the proceeding, conducted in Wrightwood on August 25. Company representatives first explained the purpose of the application. A spokesman commented on the principal item in this year's capital budget, a new well in Flume Canyon, under construction at the time of the hearing. It had been tested about two months prior to the hearing, and promised, based on tests, to be the best well in Wrightwood when on line. The Cedar well had also been added to the system since 1985. Recently, a representative commented, SCWC had been forced to haul water to Wrightwood from the Mountain High Ski Resort due to a precipitous drop in water tables caused by a three-year drought.

Twenty-two customers expressed concern over present inadequate service, poor water quality, and excessive rates. One customer stated that the information contained in the application

stating that the customers are predominately weekend residents is incorrect; that at least half of the customers in Wrightwood are permanent residents.

Some customers expressed concern that the ski resort was able to have water, while Wrightwood was experiencing an outage. The utility representative assured these customers that the ski resort does not take water from the Wrightwood aquifer. He stated that the outage problem primarily is due to little or no rainfall for three years. He further commented that the new well being installed is to serve present customers, and not any new customers who will be residing in new condominiums being built in Los Angeles County.

Sunnie Bell, a representative of PEP (People for Environmental Protection), commented on what she deems to be excessively high rates, when compared with some other systems around Southern California. She is primarily concerned, however, with the quality of the water. PEP conducted a survey two years ago in Wrightwood, in which it interviewed 222 people regarding water quality. Between 70% and 80% of the interviewees, she stated, have observed a gradual deterioration in the water quality being furnished, and have observed an oily substance in their water. She has tried for six years to have this quality condition remedied, without success. She secured a laboratory report from a Bakersfield analyst which indicated that the oily substance is a hydrocarbon, but could not state specifically which hydrocarbon. Ms. Bell suggests that SCWC not receive any increase in rates until it determines what possibly harmful substances may be in the water. She also participated in the evidentiary portion of this proceeding in Los Angeles.

Glen Martinez, a customer, brought a filter he had recently removed from his system, which appeared to be heavily contaminated with some unidentifiable substance. The filter had been installed for only two weeks before removal, Martinez said.

Another customer, Oz Brazelton, commented that whenever there is a break or leak in his area, a SCWC representative is on hand to investigate quickly.

Toby Roy, a representative from the State Health Department, spoke about the new well SCWC is drilling. She said the well is needed to meet present demand; that in the future, if SCWC is unable to provide adequate water to Wrightwood, the State Health Department would impose a service connection limitation. She further stated that her department was aware of the problem with oil and grease in the water mentioned by Ms. Bell, and has required the utility to convert all of its wells from petroleum lubrication to water lubrication.

Ron Thompson, SCWC's Manager of Operations, stated that the utility has converted all wells from petroleum-based lubricating oils to an FDA-approved food grade oil. Thompson also said that the Legislature recently passed Assembly Bill 1803, requiring a monitoring of water supplies for synthetic organic chemicals, and that no synthetic organic chemical has been found in Wrightwood. However, he conceded that some substances not included in the items to be tested for could be in the water supply.

Stephen Cramer, proprietor of the Mountain High Ski Resort, said his operation had provided about 2,750,000 gallons of water to the Wrightwood District since the beginning of August. He stated that his water table has been static at 54 feet, a 7-foot decline from the previous year. The resort was not assessing a charge for the water, but would like to have it returned, when available. Cramer stated he would continue to supply Wrightwood with water as long as they need it.

Rate of Return

SCWC agreed with the staff's recommendations concerning cost of capital in all respects except the one concerning return on common equity (ROE). SCWC requests a constant ROE of 13.25%

(Exhibit 41), while the staff recommends a range of 11.50% to 12.00%.

In our decision today on A.87-04-066, involving SCWC's Arden-Cordova District, we adopted a constant ROE for the four districts heard on this common record of 12.5%.

Authorization of a constant ROCE of 12.5% during the period 1988-1990 will provide SCWC opportunity to earn a reasonable rate of return in this district and will give due consideration to the following:

1. SCWC is a regulated public utility engaged in a business which affects the public interest and must provide service at reasonable rates.
2. Fair and reasonable rates must balance the interests of investors and ratepayers.
3. Capital requirements.
4. SCWC's capital structure, capital costs, and financial history.
5. The recent increase in the prime lending rate.
6. Our recent action in authorizing an ROE of 12.0% to a large water utility with a common equity of 80%, compared with SCWC's riskier ratio of 51%.

Consideration was also given to the following recent Commission actions concerning ROE involving large California water utilities (from D.87-09-071 in A.86-11-021.)

Return on Equity
Large Water Utilities-
1987

<u>Utility</u>	<u>Application No.</u>	<u>Decision No. (Date)</u>	<u>Return on Equity Requested</u>	<u>Return on Equity Authorized</u>	<u>Prior Return on Equity</u>
Calif. Water Service Co.	A.86-05-037 through A.86-05-041	D.87-03-078 (3-25-87)	15.00%	13.00%	14.25%
Cal American Water Co.	A.86-05-016 A.86-05-017	D.87-03-030 (3-6-85)	15.00%	13.00%	14.00%
Azusa Valley Water	A.86-04-003	D.87-01-060 (1-28-87)	14.75%	13.00%	
Dominguez Water	A.86-06-048	D.87-01-064 (1-28-87)	16.00%	12.75%	14.50%
Suburban Water	A.86-05-047	D.87-01-059 (1-28-87)	16.00%	12.75%	14.25%
So. Calif. Water	A.86-07-010 A.86-07-011 A.86-07-012 A.86-07-028 A.86-07-029 A.86-07-030	D.87-04-069 (4-22-87)	16.00%	12.75%	13.50%
Park Water	A.86-11-022	D.87-09-071 (9-23-87)	13.00%	12.00%	13.20%

The following table portrays our adopted capitalization ratios, cost factors, weighted costs, and authorized rates of return for SCWC during test years 1988 and 1989, and for attrition year 1990:

<u>Component</u>	<u>Capital Ratios</u>	<u>Cost Factors</u>	
<u>1988</u>			
Long-Term Debt	47.0%	9.75%	4.59%
Preferred Stock	2.0	4.47	.09
Common Equity	<u>51.0</u>	12.50	<u>6.38</u>
Total	100.0%		11.06%
<u>1989</u>			
Long-Term Debt	47.0%	9.78%	4.60%
Preferred Stock	2.0	4.46	.09
Common Equity	<u>51.0</u>	12.50	<u>6.38</u>
Total	100.0%		11.07%
<u>1990</u>			
Long-Term Debt	47.0%	9.82%	4.62%
Preferred Stock	2.0	4.45	.09
Common Equity	<u>51.0</u>	12.50	<u>6.38</u>
Total	100.0%		11.09%

Rate Base - General Office

In our decision today on A.87-04-066 involving the company's Arden-Cordova District, there is a full discussion of our denial at this time of SCWC's request to include in rate base the costs relating to general office renovation, mainframe computer, and a customer information system. Those items may be handled in an advice letter offset request by SCWC when they are completed and in operation.

Other Issues Involved in the Wrightwood District

Sunnie Bell, a resident of Wrightwood and a participant in the public hearing, also appeared at the evidentiary hearing held in Los Angeles on September 1. She sponsored Exhibit 23. In

her exhibit and testimony she alleged that SCWC had requested a 107% increase over three years beginning in 1981, a 33% increase over three years beginning in 1984, and now another 27% increase over three years beginning in 1988. She recollected that an approximate 67% increase was granted over three years in 1981, that the increases granted in 1984 were considerably less than the amounts requested, and that the community was satisfied with the result of that decision.

Ms. Bell took issue with the average monthly bill shown in staff Exhibit 19, which figure is \$23.44, and with the average bill under company-proposed rates - \$27.71. She contends that the staff figures are not representative of the community, especially the full-time residents. She performed her own survey of seven customers, and determined an average monthly cost of \$44.36. The summer bills contained in her survey range from \$39 to \$80; the winter bills from \$34.50 to \$55.25. She stated that some of these customers live in cottages, and some in very large, expensive homes with big yards. She asked the customers to estimate their summer and winter bills, and some referred to their bills and gave exact answers, while others estimated the amounts.

Ms. Bell's Exhibit 23 also contained the results of a chemical test performed by a Bakersfield laboratory, which she maintains demonstrates the presence of a hydrocarbon in the water in the range of molecular weight indicating some sort of diesel fuel. The chemist did not attend the hearing to substantiate or comment on the test. She believes there is a possibility that there is a harmful substance present in the Wrightwood water, and urges that this possibility be addressed by the utility. Ms. Bell also took exception with the staff report on Wrightwood concerning complaints, which states that the utility personnel went to great effort to resolve complaints, and that the service in the district is satisfactory. In sum, Ms. Bell urges that no rate increase be

allowed until the foreign substance about which she testified is identified and removed.

We sympathize with the plight of the Wrightwood ratepayers, both with the comparatively high bills and the drought conditions experienced over the past years. We commend Ms. Bell for her perseverance in trying to identify an unknown substance in the Wrightwood water. Since the date of submission, SCWC furnished the ALJ and parties with a comprehensive report (Exhibit 44) containing an analysis of several samples recently taken from the Wrightwood water, and demonstrating that no excessive levels of impurities are contained therein. We have endeavored to ensure that the rates authorized for SCWC's Wrightwood, as well as its other districts, are reasonable when balanced against the interests of the owners and ratepayers. Other districts in SCWC's system, and districts operated by other utilities, especially some of those located in mountain areas, are faced with monthly bills greater even than those applicable in Wrightwood, due to unfavorable operating conditions in such terrain. We believe the rates we are authorizing by this decision are reasonable in light of the circumstances surrounding this proceeding. We are hopeful with the Wrightwood ratepayers that the completion of the new well in the district will sufficiently augment the present water supply to provide relief for the system.

Ms. Bell conducted a very limited survey of customers in order to determine a more appropriate average bill under present and proposed rates. The information shown in staff Exhibit 19 is based upon an extensive bill analysis conducted by the staff and must be considered more reliable than the admittedly small survey performed by Ms. Bell. The staff analysis will be adopted as a reasonable district-wide average for purposes of this proceeding.

State Income Taxes

The staff state income tax calculation reflects the effect of Senate Bill 572, signed by the Governor on September 29, 1987, and which reduces the applicable tax rate from 9.6% to 9.3%.

Adopted Summary of Earnings

Our adopted summary of earnings shown below will reflect adoption of a 12.5% ROE for 1988, 1989, and 1990, as well as the exclusion of the three general office rate base items discussed supra.

TABLE 1
SOUTHERN CALIFORNIA WATER COMPANY
Wrightwood District

Adopted Summary of Earnings

-----1988-----			
	Present		Authorized
	-----		-----
	(Thousands of Dollars)		
Total Revenues	\$	706.5	\$ 762.7
Operating Expenses			
Oper. & Maint.		213.1	213.4
Adm. & Gen.		64.7	64.7
Gen. Off. Alloc.		29.3	29.3
Depreciation		63.7	63.7
Other Taxes		47.0	47.4
State Franch. Tax		19.2	24.3
Federal Inc. Tax		56.3	73.4
Total		493.2	516.2
Net Income		213.3	246.5
Rate Base		2,229.0	2,229.0
Rate of Return		9.57	11.06

-----1989-----			
	Present		Authorized
	-----		-----
	(Thousands of Dollars)		
Total Revenues	\$	717.8	\$ 819.8
Operating Expenses			
Oper. & Maint.		223.3	223.8
Adm. & Gen.		68.0	68.0
Gen. Off. Alloc.		30.7	30.7
Depreciation		70.2	70.2
Other Taxes		50.3	51.1
State Franch. Tax		16.4	25.8
Federal Inc. Tax		49.9	80.9
Total		508.8	550.5
Net Oper. Revenue		209.0	269.3
Rate Base		2,432.3	2,432.3
Rate of Return		8.59	11.07

Customer Service

SCWC keeps records of the complaints that it receives from its customers. A tabulation by the staff of the complaints received over the last four years and the first quarter of 1987 is shown below.

<u>Year</u>	<u>Billing</u>	<u>Pressure</u>	<u>Quality</u>	<u>Other</u>	<u>Main Leaks</u>
1983	406	52	29	67	109
1984	131	38	37	49	127
1985	72	46	33	45	393
1986	89	52	39	29	258
1987*	17	28	3	11	7

*1987 data are for first quarter only.

The utility classifies the complaints into several categories. The billing complaints include high bills, possible misreads of the meters, and billing errors. Some of these are caused by excessive use or leaks on the customer's premises, e.g., after the meter. Pressure complaints include high or low pressure at the customer's premises. These complaints are sometimes caused by reduced flow rather than just low pressure. The water quality complaints include complaints about the taste, odor, and appearance (e.g., color) of the water, and sometimes include suspected problems where there is no physical evidence. Any complaints that cannot be classified into the above categories are listed under the category "Other."

Staff states (Exhibit 19) that the records of complaints in the district office showed that the utility personnel and the district manager went to a great deal of effort to resolve complaints and talk to the customers about problems and perceived problems. Staff believes the service in this district is satisfactory, although some ratepayers dispute this opinion.

Since many of these customers in Wrightwood have pressure regulators on their connections, staff notes, many of the pressure complaints are due to malfunctioning pressure regulators.

The staff reviewed the records of high bill complaints for the first four months of 1987. Of 19 high bill complaints 11 were correct, 4 were misreads, and 4 were caused by leaks on the customer's premises. One rental property owner called to have the meter readings checked on all the properties that he owned; all were read correctly.

Customer Relations

Commission D.86-10-025 issued October 1, 1986, in conjunction with the rate applications for Barstow, Desert, Metropolitan, San Bernardino, and Pomona Valley Districts included an order requiring SCWC to prepare a plan for the augmentation of its maintenance program and for the improvement of its public relations program for these districts. The next decision, D.87-04-069, ordered SCWC to include in the public relations program the following six districts: Santa Maria, Ojai, Simi Valley, Clearlake, Bay, and Calipatria-Niland.

Realizing that inadequate public relations was not limited to those districts, SCWC has taken the initiative to develop a public relations program for the entire company. SCWC expanded the program with the public relations firm that they had been using. In addition, SCWC hired another firm to survey all of the customers with a "report card" type of grading form to initially determine customer perceptions. The results of this survey were compiled in graphical form and are being used to develop a public relations program.

SCWC is stepping up public relations activities, and in time the results should be appreciable. SCWC has a preliminary plan for a customer information department which would provide up-to-date customer account information and provide a convenient method for customers to report problems. A customer information department may provide a method for the ratepayers to contact the utility and receive service with a minimum of frustration.

This department was scheduled in the 1989 budget for the general office. The operation of this customer information department is, to a large extent, dependent on the replacement of the mainframe computer and remodeling of the general office. Since the plans for the general office are running behind schedule and the method of operation and relaying information to the districts is not complete, this may be delayed to 1990 or later until the plans are fully developed.

Rate Design

In its proposed rates for 1988, 1989, and 1990, SCWC is requesting that the following tariff schedules be changed to reflect the increased revenue requirements:

<u>Schedule</u>	<u>Class of Service</u>
WW-1	General Metered Service
AA-4	Private Fire Service

The service charge rates presently in effect under the General Metered Service tariff schedule were designed to recover approximately 63% of the fixed costs. The utility's proposal for the general metered service maintains that ratio.

The Private Fire Service rate is also proposed to be increased.

The tables in the following page show the effects of the utility-proposed increases and the bill analysis for the 5/8" x 3/4" meter for the respective years.

PROPOSED CHANGE IN RATES

SoCal Water Co.

Wrightwood District

SCHEDULE NO. WW-1, GENERAL METERED SERVICE

	1987			1988			1989			1990		
Description	Proposed Rates	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change		
SERVICE CHARGE												
5/8" meter	\$15.40	\$17.75	\$2.35	15.26%	\$19.00	\$1.25	7.04%	\$20.00	1.00	5.26%		
3/4" meter	17.10	20.00	2.90	16.96%	21.00	1.00	5.00%	22.00	1.00	4.76%		
1" meter	22.90	26.00	3.10	13.54%	28.00	2.00	7.69%	30.00	2.00	7.14%		
1-1/2" meter	31.60	36.00	4.40	13.92%	40.00	4.00	11.11%	42.00	2.00	5.00%		
2" meter	41.80	48.00	6.20	14.83%	52.00	4.00	8.33%	54.00	2.00	3.85%		
3" meter	78.00	90.00	12.00	15.38%	96.00	6.00	6.67%	101.00	5.00	5.21%		
4" meter	114.00	132.00	18.00	15.79%	141.00	9.00	6.32%	149.00	8.00	5.67%		
COMMUNITY CHARGE												
First 3 CCF, per CCF	1.1190	1.6600	.5410	48.35%	1.7750	.1150	6.93%	1.8690	.0940	5.30%		
Over 3 CCF, per CCF	1.5600	1.6600	.1000	6.41%	1.7750	.1150	6.93%	1.8690	.0940	5.30%		

BILL ANALYSIS - 5/8" meter

Monthly Usage CCF	1987			1988			1989			1990		
	Proposed	Dollar	Percent	Proposed	Dollar	Percent	Proposed	Dollar	Percent			
	Rates	Change	Change	Rates	Change	Change	Rates	Change	Change			
0	\$15.40	\$17.75	\$2.35	15.26%	\$19.00	\$1.25	7.04%	\$20.00	\$1.00	5.26%		
3	18.76	22.73	3.97	21.18%	24.33	1.60	7.02%	25.61	1.28	5.27%		
6(avg)	23.44	27.71	4.27	18.23%	29.65	1.94	7.00%	31.21	1.56	5.27%		
10	29.68	34.35	4.67	15.75%	36.75	2.40	6.99%	38.69	1.94	5.28%		
25	53.08	59.25	6.17	11.63%	63.38	4.13	6.96%	66.73	3.35	5.29%		
50	92.08	100.75	8.67	9.42%	107.75	7.00	6.95%	113.45	5.70	5.29%		
100	170.08	183.75	13.67	8.04%	196.50	12.75	6.94%	206.90	10.40	5.29%		

As shown in the table for the General Metered Service, increases were applied to both the service charges and the commodity rates for 1988, 1989, and 1990.

On May 28, 1986, the Commission issued D.86-05-064 in Order Instituting Investigation 84-11-041, which established a water rate design policy.

That policy, among other things, established fixed costs as they relate to the service charge are those direct costs that are necessary to provide customer access to water. These fixed costs were defined in the decision as:

1. Maintenance expense
2. Customer account expense, excluding uncollectibles
3. Transmission and distribution expense
4. Administration and general expense
5. Rent expense
6. Depreciation expense
7. Property tax expense
8. Gross return on investment (rate base)

In the interest of balancing the utility's interest with customers' needs, the Commission established as a statewide goal the setting of a utility's service charge to recover up to 50% of its fixed cost.

The service charge revenue recovery obtained (from the general metered services) by staff from the utility's workpapers at present rates for 1988 as a percentage of the fixed costs is 63%. Although the Commission's rate design ruling requires that service charges be set to recover up to 50% of fixed costs, it does not specifically require service charges to be reduced when they generate over 50% of revenues. In this case, because the service area is primarily a resort area, the high percentage of revenue

In accordance with Public Utilities Code Section 311, as amended by Assembly Bill 3383, the ALJ's proposed decision was mailed to appearances on November 16, 1987. SCWC filed comments concerning the requirement contained in Ordering Paragraph 5 that SCWC have a thorough analysis performed to determine whether there are harmful substances present in the water it furnishes its Wrightwood customers. The requirement was based upon the chemical test contained in Sunnie Bell's Exhibit 23, indicating the presence of hydrocarbons in her water supply.

On November 10 SCWC furnished the ALJ and parties, including Ms. Bell, with a comprehensive report on the Wrightwood water supply. This report has been received as Exhibit 44. It demonstrates that in connection with samples taken from four locations, two taken from a residence adjacent to Ms. Bell's residence, none contained excessive levels of impurities. In the circumstances, there appears to be no further necessity for special testing of SCWC's Wrightwood water. Accordingly, Conclusion of Law 5 and Ordering Paragraph 5 of the proposed decision will be excluded from our decision herein, and page 9 of the proposed decision modified to reflect the receipt of and results contained in Exhibit 44.

Findings of Fact

1. SCWC's rates in this district were last adjusted January 1, 1987 by advice letter filing authorized pursuant to D.85-05-053.
2. Since January 1, 1987 SCWC's operating costs have increased, and will continue to do so.
3. The amounts of operating revenues, operating expenses, and rate base, and each element thereof shown in our adopted Results of Operations represent a fair and reasonable determination of SCWC's revenue requirements for 1988, 1989, and 1990.
4. Adoption of a constant ROE of 12.5% for this district during 1988, 1989, and 1990 is reasonable, subject to further

CORRECTION

**THIS DOCUMENT HAS
BEEN REPHOTOGRAPHED**

TO ASSURE

LEGIBILITY

recovered by the service charges is reasonable and appropriate. Since resort areas experience extreme variations in water demand, and the utility must construct its system to meet the peak demand, a high fixed cost relative to the average consumption by its year-round customers is created. It is therefore appropriate to weigh the rate more heavily with fixed costs so that seasonal users pay their share of those fixed costs.

Attrition Year 1990

Staff recommends that an attrition allowance be granted for the operational attrition at the newly authorized rates from the adopted summary of earnings for 1988 and 1989, whereby the slippage in rates of return for the respective years is projected into the third year, and that a financial attrition allowance be authorized in the same manner. This recommendation is reasonable and will be authorized.

Balancing Accounts

In July 1987, SoCal provided the recorded June 1987 balances in its balancing account set up pursuant to Public Utilities Code Section 792.5. The balance as of June 30, 1987, was \$2,771 undercollection or 0.4% of the gross annual revenue.

In accordance with established Commission procedures, recorded balances less than 2% of gross annual revenue will not be amortized. Accordingly, a surcharge has not been included in Appendix A.

1986 Tax Reform Act

On September 10, 1987, the Commission issued D.87-09-026 relating to the effects of the 1986 Tax Reform Act on contributions in aid of construction (CIAC) and advances for construction (AIC).

In accordance with that decision, SoCal informed the staff on October 28, 1987, that it was choosing Method 5, as designated in that decision, as its method of handling the taxes affected by CIAC and AIC. This has been reflected in the Summaries of Earnings previously discussed.

In accordance with Public Utilities Code Section 311, as amended by Assembly Bill 3383, the ALJ's proposed decision was mailed to appearances on November 16, 1987. SCWC filed comments concerning the requirement contained in Ordering Paragraph 5 that SCWC have a thorough analysis performed to determine whether there are harmful substances present in the water it furnishes its Wrightwood customers. The requirement was based upon the chemical test contained in Sunnie Bell's Exhibit 23, indicating the presence of hydrocarbons in her water supply.

On November 10 SCWC furnished the ALJ and parties, including Ms. Bell, with a comprehensive report on the Wrightwood water supply. This report has been received as Exhibit 44. It demonstrates that in connection with samples taken from four locations, two taken from a residence adjacent to Ms. Bell's residence, none contained excessive levels of impurities. In the circumstances, there appears to be no further necessity for special testing of SCWC's Wrightwood water. Accordingly, Conclusion of Law 5 and Ordering Paragraph 5 of the proposed decision will be excluded from our decision herein, and page 9 of the proposed decision modified to reflect the receipt of and results contained in Exhibit 44.

Findings of Fact

1. SCWC's rates in this district were last adjusted January 1, 1987 by advice letter filing authorized pursuant to D.85-05-053.
2. Since January 1, 1987 SCWC's operating costs have increased, and will continue to do so.
3. The amounts of operating revenues, operating expenses, and rate base, and each element thereof shown in our adopted Results of Operations represent a fair and reasonable determination of SCWC's revenue requirements for 1988, 1989, and 1990.
4. Adoption of a constant ROE of 12.5% for this district during 1988, 1989, and 1990 is reasonable, subject to further

orders of the Commission to change the ROE during the review of future rate cases involving other districts of SCWC. The capital ratios set forth in this decision are reasonable and should be adopted for 1988, 1989, and 1990.

5. The items requested by SCWC for its general office rate base - renovation, mainframe computer, and customer information system - should not be allowed in rate base until actually completed, installed, and in operation.

6. The staff-recommended rate design is reasonable and should be adopted.

7. The bill analysis performed by the staff shown in Exhibit 19 is more extensive and representative of the Wrightwood system than the survey performed by Sunnie Bell, and is appropriate for purposes of this proceeding.

8. The increases in rates and charges authorized by this decision are justified and are reasonable; present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

9. Sunnie Bell has provided information concerning the presence in the Wrightwood water supply of an unidentified, and therefore potentially harmful substance.

Conclusions of Law

1. Revenue increases of \$56,200 or 7.9% in 1988, \$44,700 or 5.8% in 1989, and \$43,200 or 5.3% in 1990 are reasonable based upon our adopted results of operations for SCWC's Wrightwood District.

2. SCWC should be authorized to file the rates set forth in Appendix A.

3. The effective date of this order should be today to meet SCWC's need for rate relief.

4. SCWC should be authorized to make an advice letter filing to cover the cost of the items discussed under Rate Base - General Office, when they are completed and in operation.

5. SCWC should immediately have a thorough analysis made, by a competent party, to determine whether there are any harmful substances present in the water it furnishes its Wrightwood customers, and should furnish the Commission staff and Wrightwood customers within 60 days with information concerning the results of the analysis.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company (SCWC) is authorized to file for its Wrightwood District, effective January 1, 1988, the revised rate schedules in Appendix A. The filing shall comply with General Order (GO) 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1988, SCWC is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B, or to file a proportionate lesser or greater increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Wrightwood District 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, 1988, differs from the later of (a) the rate of return found reasonable by the Commission for SCWC during the corresponding period in the then most recent rate decision, or (b) 11.07%. This filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the 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 schedule shall be no earlier than January 1, 1989, or 30 days after

the filing of the step rate, whichever is later. The revised schedule shall apply only to service rendered on and after its effective date.

3. On or after November 15, 1989, SCWC is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B, or to file a proportionate lesser or greater increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Wrightwood District 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, 1989, differs from the later of (a) the rate of return found reasonable by the Commission for SCWC during the corresponding period in the then most recent rate decision, or (b) 11.09%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the 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 schedule shall be no earlier than January 1, 1990, or 30 days after the filing of the step rates, whichever is later.

4. SCWC is authorized to make an advice letter filing to cover the cost of general office renovation, mainframe computer, and customer information system, when completed and in operation.

5. SCWC shall immediately arrange to have a thorough analysis performed, by a competent party, to determine whether there are any harmful substances present in the water it furnishes its Wrightwood customers. SCWC shall furnish the Commission's Advisory and Compliance Division and its Wrightwood customers with information concerning the results of the analysis not later than 60 days after the effective date of this order.


This order is effective today.

Dated December 17, 1987, at San Francisco, California.

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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


Victor Weiser, Executive Director

APPENDIX A
Page 1

Southern California Water Co.
Wrightwood District

SCHEDULE NO. WW-1

GENERAL METERED SERVICE

Applicability

Applicable to all metered water service.

Territory

Wrightwood and vicinity, San Bernardino and Los Angeles Counties.

Rates

Service Charge:

Per Meter
Per Month*

For 5/8 x 3/4-inch meter.....	\$	16.60 (I)
For 3/4-inch meter.....		18.45 :
For 1-inch meter.....		24.70 :
For 1 1/2-inch meter.....		34.10 :
For 2-inch meter.....		45.10 :
For 3-inch meter.....		84.00 :
For 4-inch meter.....		123.00 (I)

Quantity Rates:

For all water delivered, per 100 cu.ft..... 1.557 (I) (C)

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

* All rates are subject to the reimbursement fee set forth on schedule No. UF.

APPENDIX A
Page 2Southern California Water Co.
All Districts

SCHEDULE NO. AA-4

PRIVATE FIRE SERVICE

Applicability

Applicable to all water service furnished to private fire systems and to private fire hydrants.

Territory

- Rate A - Applicable within the Arden-Cordova, Bay, Calipatria- (T)
Niland, Clearlake, Los Osos, Metropolitan, Ojai, San (T)
Gabriel Valley, and Wrightwood Districts. (T)
- Rate B - Applicable within the Barstow, Big Bear, Desert, Orange
County, Pomona Valley, San Dimas, Santa Maria, and
Simi Valley Districts.

RatesPer Month

	A	B
For each inch of diameter of service connection	\$ 4.00	\$ 3.00

(End of Appendix A)

APPENDIX B
Wrightwood 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
1-1-89 1-1-90

Schedule WW-1 General Metered Service

Service Charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter.....	\$.95	\$.95
For 3/4-inch meter.....	1.05	1.05
For 1-inch meter.....	1.40	1.40
For 1 1/2-inch meter.....	2.00	2.00
For 2-inch meter.....	2.60	2.60
For 3-inch meter.....	5.00	5.00
For 4-inch meter.....	7.00	7.00

Quantity Rates:

For all water delivered, per 100 cu.ft	.091	.084
--	------	------

(End of Appendix B)

APPENDIX C
Page 1Southern California Water Company
Wrightwood DistrictAdopted Quantities

<u>PURCHASED POWER</u>	<u>1988</u>	<u>1989</u>
Supplier: SoCal Edison 1/87		
Wells:		
Total Production (KCcf)	232.4	235.8
Kwh per CCF	1.332	1.332
Total Kwh (1000)	309.5	314.1
Unit Cost \$/Kwh	0.09052	0.09047
Energy Cost	\$28,019	\$28,413
Boosters:		
Total Production (KCcf)	232.4	235.8
Kwh per CCF	0.100	0.100
Total Kwh (1000)	23.2	23.6
Unit Cost \$/Kwh	0.09052	0.09047
Energy Cost	\$2,102	\$2,132
TOTAL Purchased Power	\$30,121	\$30,545
TOTAL Chemical Cost	\$1,100	\$1,100

APPENDIX C
Page 2

Southern California Water Company
Wrightwood District

Adopted Quantities

Number of Services by Meter Size	1988	1989
Schedule WW-1		
5/8 x 3/4	2,021	2,055
3/4	275	278
1	21	22
1 1/2	14	14
2	1	1
3	0	0
4	1	1
6	0	0
8	0	0
TOTAL	2,333	2,371
0 - 3 CCF	50,570	51,392
> 3 CCF	131,830	133,908
TOTAL CCF	182,400	185,300

	No. of Services		Usage (Kccf)		Avg. Usage Ccf/Yr	
	1988	1989	1988	1989	1988	1989
Commercial Met.	2,329	2,367	178.1	181.0	76.5	76.5
Industrial						
Public Auth.	4	4	4.3	4.3	1063.2	1063.2
Other						
Total Metered	2,333	2,371	182.4	185.3		
Flat Rate						
Private Fire Prot.	2	2				
Total	2,335	2,373	182.4	185.3		
Water Loss: 15.0%			34.9	35.4		
Oper. Usage			15.2	15.2		
Total Water Produced			232.5	235.9		

APPENDIX C

Page 3

Wrightwood District

Utility Plant, Depreciation Reserve, and Rate Base

	1988 -----	1989 -----
	(Thousands of Dollars)	
UTILITY PLANT		
Plant BOY	\$ 3,072.6	\$ 3,337.2
Util.Add.	91.3	95.1
T.D.Mains	207.3	192.9
Co.Plant Add.Subtotal	298.6	288.0
Advances	.0	.0
Contributions	.0	.0
Total Additions	298.6	288.0
Retirement	34.0	32.8
Plant EOY	3,337.2	3,592.4
Wgt.Plant @ 27.8%	73.6	70.9
Wght.Avg.Plant	3,146.2	3,408.1
DEPRECIATION RESERVE		
Reserve BOY	592.6	630.1
Contrib.	2.5	2.5
Depr Exp. (2.43%)	63.7	70.2
Clear.Chg.	5.3	5.3
Total Accrual	71.5	78.0
Retirement	34.0	32.8
Reserve EOY	630.1	675.3
Wgt.Accr. @ 50%	18.8	22.6
Wght.Deprec. Reserve	611.4	652.7
RATE BASE		
Utility Plant	3,146.2	3,408.1
Material & Sup.	42.2	42.2
Work.Cash Allow.	30.1	30.1
Deprec Reserve	-611.4	-652.7
Advances For Constr.	-143.2	-135.9
Contributions-in-Aid	-84.0	-81.5
Gen.Office Alloc.	26.3	30.4
Unamort.Defer.Taxes	-128.7	-161.4
Unamort. ITC	-50.6	-49.1
Capit. Items	2.0	2.0
Avg RATE BASE	2,229.0	2,432.3

APPENDIX C
Page 4

Wrightwood District
Income Tax Calculations

	1988	1989
	-----	-----
	(Thousands of Dollars)	
Total Revenues	\$ 762.7	\$ 819.8
Purch. Power	30.1	30.5
Purch. Chem	1.1	1.1
Payroll	123.4	130.3
OM Other	68.8	72.4
AG Other	13.6	14.0
Pension	17.3	18.2
Inj. Damage	19.7	20.9
Gen. Office Alloc.	29.3	30.7
Payroll Tax	9.1	9.6
Ad Valorem .9679	32.6	35.4
Uncoll. .00539	4.1	4.4
Loc. Franch..00748	5.7	6.1
Subtotal	354.8	373.6
Interest	100.9	110.5
Total Deductions	455.7	484.1
State Tax Deprec.	45.4	58.5
State Tax 9.3	24.3	25.8
Federal Tax Deprec.	66.8	71.9
Fed Tax 34%	73.4	80.9
Total Federal Taxes	73.4	80.9

Net/Gross 1.692220

(End of Appendix C)

APPENDIX D
Wrightwood District

Comparison of typical bills for commercial metered customers of various usage levels and average usage level at present and authorized rates for the year 1988.

General Metered Service (5/8 x 3/4) Inch Meters

: Monthly Usage:	At Present	:At Authorized :	Percent	:
: (Cubic Feet):	Rates	: Rates :	Increase	:
300	\$ 18.76	\$ 21.27	13.4 %	
500	21.88	24.39	11.5	
638 (Avg.)	24.02	26.53	10.4	
1,000	29.68	32.17	8.4	
2,000	45.28	47.74	5.4	
3,000	60.88	63.31	4.0	
5,000	92.08	94.45	2.6	
10,000	170.08	172.30	1.3	

(End of Appendix D)

allowed until the foreign substance about which she testified is identified and removed.

We sympathize with the plight of the Wrightwood ratepayers, both with the comparatively high bills and the drought conditions experienced over the past years. We commend Ms. Bell for her perseverance in trying to identify an unknown substance in the Wrightwood water. We will direct the utility to determine whether the water provided to its Wrightwood customers is healthful. We have endeavored to ensure that the rates authorized for SCWC's Wrightwood, as well as its other districts, are reasonable when balanced against the interests of the owners and ratepayers. Other districts in SCWC's system, and districts operated by other utilities, especially some of those located in mountain areas, are faced with monthly bills greater even than those applicable in Wrightwood, due to unfavorable operating conditions in such terrain. We believe the rates we are authorizing by this decision are reasonable in light of the circumstances surrounding this proceeding. We are hopeful with the Wrightwood ratepayers that the completion of the new well in the district will sufficiently augment the present water supply to provide relief for the system.

Ms. Bell conducted a very limited survey of customers in order to determine a more appropriate average bill under present and proposed rates. The information shown in staff Exhibit 19 is based upon an extensive bill analysis conducted by the staff and must be considered more reliable than the admittedly small survey performed by Ms. Bell. The staff analysis will be adopted as a reasonable district-wide average for purposes of this proceeding.

State Income Taxes

The staff state income tax calculation reflects the effect of Senate Bill 572, signed by the Governor on September 29, 1987, and which reduces the applicable tax rate from 9.6% to 9.3%.

Findings of Fact

1. SCWC's rates in this district were last adjusted January 1, 1987 by advice letter filing authorized pursuant to D.85-05-053.

2. Since January 1, 1987 SCWC's operating costs have increased, and will continue to do so.

3. The amounts of operating revenues, operating expenses, and rate base, and each element thereof shown in our adopted Results of Operations represent a fair and reasonable determination of SCWC's revenue requirements for 1988, 1989, and 1990.

4. Adoption of a constant ROE of 12.5% for this district during 1988, 1989, and 1990 is reasonable. The capital ratios set forth in this decision are reasonable and should be adopted for 1988, 1989, and 1990.

5. The items requested by SCWC for its general office rate base - renovation, mainframe computer, and customer information system - should not be allowed in rate base until actually completed, installed, and in operation.

6. The staff-recommended rate design is reasonable and should be adopted.

7. The bill analysis performed by the staff shown in Exhibit 19 is more extensive and representative of the Wrightwood system than the survey performed by Sunnie Bell, and is appropriate for purposes of this proceeding.

8. The increases in rates and charges authorized by this decision are justified and are reasonable; present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

9. Sunnie Bell has provided information concerning the presence in the Wrightwood water supply of an unidentified, and therefore potentially harmful substance.

In accordance with Public Utilities Code Section 311, as amended by Assembly Bill 3383, the ALJ's proposed decision was mailed to appearances on November 16, 1987. SCWC filed comments concerning the requirement contained in Ordering Paragraph 5 that SCWC have a thorough analysis performed to determine whether there are harmful substances present in the water it furnishes its Wrightwood customers. The requirement was based upon the chemical test contained in Sunnie Bell's Exhibit 23, indicating the presence of hydrocarbons in her water supply.

On November 10 SCWC furnished the ALJ and parties, including Ms. Bell, with a comprehensive report on the Wrightwood water supply. This report has been received as Exhibit 44. It demonstrates that in connection with samples taken from four locations, two taken from a residence adjacent to Ms. Bell's residence, none contained excessive levels of impurities. In the circumstances, there appears to be no further necessity for special testing of SCWC's Wrightwood water. Accordingly, Conclusion of Law 5 and Ordering Paragraph 5 of the proposed decision will be excluded from our decision herein, and page 9 of the proposed decision modified to reflect the receipt of and results contained in Exhibit 44.

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Conclusions of Law

1. Revenue increases of \$56,200 or 7.9% in 1988, \$44,700 or 5.8% in 1989, and \$43,200 or 5.3% in 1990 are reasonable based upon our adopted results of operations for SCWC's Wrightwood District.

2. SCWC should be authorized to file the rates set forth in Appendix A.

3. The effective date of this order should be today to meet SCWC's need for rate relief.

4. SCWC should be authorized to make an advice letter filing to cover the cost of the items discussed under Rate Base - General Office, when they are completed and in operation.

5. SCWC should immediately have a thorough analysis made, by a competent party, to determine whether there are any harmful substances present in the water it furnishes its Wrightwood customers, and should furnish the Commission staff and Wrightwood customers within 60 days with information concerning the results of the analysis.

ORDER

IT IS ORDERED that:

1. Southern California Water Company (SCWC) is authorized to file for its Wrightwood District, effective January 1, 1988, the revised rate schedules in Appendix A. The filing shall comply with General Order (GO) 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1988, SCWC is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B, or to file a proportionate lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Wrightwood District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking

forth in this decision are reasonable and should be adopted for 1988, 1989, and 1990.

5. The items requested by SCWC for its general office rate base - renovation, mainframe computer, and customer information system - should not be allowed in rate base until actually completed, installed, and in operation.

6. The staff-recommended rate design is reasonable and should be adopted.

7. The bill analysis performed by the staff shown in Exhibit 19 is more extensive and representative of the Wrightwood system than the survey performed by Sunnie Bell, and is appropriate for purposes of this proceeding.

8. The increases in rates and charges authorized by this decision are justified and are reasonable; present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

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adjustments for the 12 months ending September 30, 1988, exceeds the later of (a) the rate of return found reasonable by the Commission for SCWC during the corresponding period in the then most recent rate decision, or (b) 11.07%. This filing shall comply with GO 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the 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 schedule shall be no earlier than January 1, 1989, or 30 days after the filing of the step rate, whichever is later. The revised schedule shall apply only to service rendered on and after its effective date.

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This order is effective today.

Dated _____ at San Francisco, California.

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