

ORIGINAL

Decision 88-01-025 January 13, 1988

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 Big )  
Bear District. )

Application 87-04-067  
(Filed April 29, 1987)

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

Benno Nager and Joseph A. Shuff, for Goldmine Ski  
Association, Inc., interested party.

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

OPINION

This proceeding was heard on a consolidated record with  
Application (A.) 87-04-066, A.87-04-068, and 87-04-069 before  
Administrative Law Judge John Lemke in Los Angeles August 31  
through September 3, 1987. A public hearing, held August 26  
in Big Bear, 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 Big Bear District by \$298,600 or  
7.50% in 1988, by \$207,700 or 4.70% in 1989, and by \$181,100 or  
3.91% in 1990. Rates for the Big Bear District were last increased  
January 1, 1987 pursuant to advice letter filing authorized by  
Decision (D.) 85-05-049. 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 Big Bear District is part of the company's Orange Division. The division superintendent is responsible for both the Big Bear water and electric operations and reports to a division manager.

The water systems in the Big Bear District serve five separate areas. They are Big Bear Lake-Moonridge, Fawnskin, Lake William, Rimforest, and Sugarloaf. These are not presently interconnected. The elevation of Big Bear Lake is approximately 6,750 feet.

There is relatively little industrial development in this area and the business enterprises are largely those associated with a resort area. On December 31, 1986, there were 11,968 active customers in the district. Of the total customers in these systems, 99.6% are residential and business customers.

The water supply for the Big Bear Lake-Moonridge area is obtained from four wells at the Lake Plant, six at the Division Plant, two at the Lassen Plant, one at the Sand Canyon Plant, 14 slant wells, and three springs. The company is now equipping a recently drilled well at the Division Plant, to be known as Division No. 7.

Fawnskin's water supply is obtained from three wells at North Shore Plants, three slant wells and a spring. The company is also now equipping a new well recently drilled at the Barbara Lee Plant.

At Lake William the water supply is obtained from three wells, one each at the Onyx, Monte Vista, and Skyview Plants.

The water supply facilities in the Rimforest area include two wells and a connection to the Crestline-Lake Arrowhead Water Agency.

In the Sugarloaf area the water supply is obtained from eight wells.

Water produced from almost all of the sources of supply is pumped directly into the system without treatment. Chlorine is added at the Lassen, Lake, and Dogwood Plants in Big Bear Lake; at North Shore No. 1 Plant in Fawnskin; at Skyview in Lake William; and at Eleventh Lane, Lakewood, and Tenth Lane North Plants in Sugarloaf.

As of December 31, 1986 there were distribution mains in the Big Bear District ranging in size up to 12 inches in diameter.

Storage facilities are located in each of the areas and total 4,058,500 gallons.

SCWC estimated its utility plant in service as of December 31, 1987 to be \$19,578,400, while the staff's estimate is \$18,615,800.

#### Public Hearing/Customer Response

Approximately 30 letters were received from customers regarding SCWC's request for this district. Most were written in opposition to the application because the writers felt that rates and charges are already excessive.

Approximately 50 people attended the public hearing held in Big Bear on August 26. Eighteen people spoke during the public hearing in opposition to the request. John Spivey, Mayor of the City of Big Bear Lake, presented the ALJ with a letter requesting deferral of any action regarding existing rate schedules until at least the early part of 1988, in order to allow time for action on a pending eminent domain proceeding in the San Bernardino Superior Court (Action No. BCV-002223).

The comments at the public hearing contained references to recent outages, poor water quality, excessively high bills, and inadequate pressure.

#### 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 recent decision in A.87-04-066 setting rates for four of SCWC's districts (the Arden-Cordova districts), we adopted an ROE of 12.5% based on the common record. We specified that the ROE for those districts may be revised subsequently to conform with the ROE which we ultimately approve in rate applications for other districts of this water company. The ROE for Big Bear District is similarly subject to revision as a result of our decisions in rate proceedings for other SCWC districts. We continue the policy first announced in A.87-04-066.

Authorization of a constant ROE 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 recent decision 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.

The company initially requested an increase in rates of approximately 7.50%, whereas the staff recommended a decrease in rates in 1988 of 9.65%, and an increase in 1989 of 2.32%. Differences are attributable primarily to estimates for payroll

expense, purchased services and materials and supplies, main repairs, the need for the Yosemite Reservoir and 10-inch transmission main projects, and the Apache Well fence. These issues are discussed as follows:

Payroll Expenses

SCWC and the staff differ over the appropriate estimates for payroll expense in 1988 and 1989. These differences are shown in the following table, which is contained in SCWC's Exhibit 42:

SOUTHERN CALIFORNIA WATER COMPANY  
Summary of Earnings Reconciliation  
Big Bear District

DESCRIPTION	1988 AT PRESENT RATES			1989 AT PRESENT RATES		
	Staff	Adjustments	Company	Staff	Adjustments	Company
Operating Revenues	3,982.4		3,982.4	4,112.8		4,112.8
O & M Expenses						
Purchased water	30.4		30.4	30.4		30.4
Purchased power	241.6		241.6	255.0		255.0
Purchased chemicals	3.3		3.3	3.3		3.3
Pump tax	0.0		0.0	0.0		0.0
Water rights leases	0.0		0.0	0.0		0.0
Payroll	420.2	17.1	437.3	442.5	31.5	474.0
Source of supply	0.0		0.0	0.0		0.0
Transmission & Dist.	0.0		0.0	0.0		0.0
Customer accounts	49.6		49.6	51.2		51.2
Contracted maintenance	0.0		0.0	0.0		0.0
Materials & supplies	24.2	13.0	37.2	24.9	15.1	40.0
Transportation	52.4		52.4	56.1		56.1
Purchased services	292.4	141.7	434.1	289.7	176.7	466.6
Uncollectibles	14.8		14.8	15.3		15.3
Other	17.1		17.1	18.3		18.3
Total O & M Expenses	1,146.0	171.8	1,317.8	1,186.7	223.5	1,410.2
A & G Expenses						
Payroll	37.2	1.3	38.5	39.1	2.7	41.8
Rents	8.7		8.7	9.1		9.1
Office Supplies	14.0		14.0	14.6		14.6
Property insurance	0.0		0.0	0.0		0.0
Injuries & damages	77.6	2.9	80.5	81.7	5.4	87.1
Employee pensions	64.0	2.6	66.6	67.4	4.8	72.2
Regulatory Commission exp.	5.8		5.8	5.8		5.8
Outside services	1.0		1.0	1.0		1.0
General plant	0.0		0.0	0.0		0.0
Amort. of latd. term invstment	0.0		0.0	0.0		0.0
Bus. Lic. fee	0.0		0.0	0.0		0.0
Misc. general expenses	6.2		6.2	6.4		6.4
Local Franchise Tax	60.4		60.4	62.4		62.4
Other	0.0		0.0	0.0		0.0
Total A & G Expenses	274.9	6.8	281.7	287.5	12.9	300.4
S.D. incl. depr. (prorated)	134.3		134.3	140.5		140.5
Depreciation expense	346.6		346.6	370.4		370.4
Taxes other than income	108.0	1.4	109.4	115.9	2.6	118.5
State corp. franchise tax	148.5	(17.1)	131.4	144.0	(22.7)	121.3
Federal income tax	450.4	(54.9)	395.5	459.3	(72.7)	386.6
Subtotal	1,187.8	(70.6)	1,117.2	1,230.1	(92.7)	1,137.4
Total Operating Expenses	2,608.7	108.0	2,716.7	2,704.3	143.7	2,848.0
Net Operating Revenue	1,375.7	(108.0)	1,265.7	1,408.5	(143.7)	1,264.8
Rate Base	11,133.8	15.1	11,150.9	11,870.8	30.3	11,901.1
Return on Rate Base	12.34%		11.33%	11.87%		10.63%



In addition to, and because of the payroll expense dispute, SCWC and the staff project different amounts for the payroll-related items of "Injuries and Damages" and "Employee Pensions," and for "Taxes, Other Than Income."

SCWC derived its estimates from the calculation of a ten-year average of labor expense per customer, adjusted for inflation, and then projected that average into the test years, allowing for customer growth, future inflation, and a small payroll adjustment. Company witness Young testified that a ten-year average was used because it "has the effect of smoothing out variations from year-to-year in the portion of payroll that is expensed versus capitalized, and also the variable vacation accrual estimate."

The staff's estimate is based upon an analysis of SCWC's current payroll and its specific payroll needs, including salary increases and stepped up foot patrols. For items that vary widely from year to year, such as vacation accrual and expense-to-capital ratio, staff witness Ali Miremadi employed a five-year average to account for any distortion that might have been caused by relying on a single year. In spite of the fact that SCWC does not expect to hire new personnel during the next three years the utility based its projected payroll needs on expected customer growth and the historical ratio of payroll expense to number of customers.

SCWC did not substantiate the basic assumption of its methodology, e.g., that payroll dollars grow in direct relation to customer base. SCWC urges that since customers have demanded quicker response to complaints, the higher payroll expense figure it recommends should be allowed. But since the company does not intend to add personnel to meet any increased demand by customers for quicker complaint response, we must assume that it is staffed to adequately meet customer needs. In the circumstances, the staff's calculations appear reasonable and will be adopted.

Purchased Services and Materials and Supplies

There are significant differences between SCWC and the staff in this area of Operating and Maintenance Expenses, as indicated in the table from Exhibit 42, supra.

Here again, SCWC applied a ten-year average per customer of expenditure for purchased services and materials and supplies, adjusted for inflation, and projected that average into the test years, again adjusting for estimated customer growth and inflation. Staff witness Miremadi based his calculations on an analysis of the utility's expenditures over the past five years. SCWC has an ongoing program of main replacement in the district, which has resulted in reduced leaks, as reported in Staff Exhibit 20, Graphs C and D. Based upon this, Miremadi isolated the portions of the Materials and Supplies and Purchased Services accounts that represent expenditures for main repairs and reduced those projected expenses to reflect his belief that, as the number of leaks is reduced, the expense of repairing leaks will also be reduced. Although SCWC witness Young had testified that actual expenses incurred by the company during 1987 through July 30 for main-related purchased services and materials and supplies have increased, that one-year data need not be taken as representative of the test years under consideration here. The Leak Comparison Table shown in Exhibit 20 indicates that the leaks per 1,000 feet have decreased from 17.96 in 1984, to 12.52 in 1985, to 8.12 in 1986. This trend appears more reliable than a one-year recorded expense for purposes of estimating purchased services during the test years involved in this rate case.

Miremadi, testifying as to the methodology used in computing his projections, stated that he used an approach somewhat different from that employed for the other three districts heard on this consolidated record - Arden-Cordova, San Gabriel Valley, and Wrightwood. In those districts he used substantially the same methodology used by SCWC. However, in this district Miremadi

separated out purchased services and materials and supplies allocated to water mains, but treated the rest of the components of those items in the same manner as the company. He then calculated expenses for main-related purchased services and materials and supplies on a per leak basis. We agree with Miremadi in this approach. He employed this method because of the ongoing main replacement program in the district. The approach is innovative, and appropriate in these circumstances because it will take into account the historical reduction in the costs of repairing main leaks as older, leaky mains are replaced in the main replacement program.

Yosemite Reservoir and  
10-Inch Transmission Main

SCWC plans to construct a reservoir, called the "Yosemite Reservoir" in the upper Moonridge area at a projected cost of \$350,000. The company also plans to install 5,000 feet of 10-inch transmission main at a cost of \$175,000. Staff recommends the exclusion of both projects from rate base now but suggests that SCWC be allowed to file advice letters when the projects are completed. The utility agreed with the advice letter filing when the projects are completed. However, the staff recommended that caps of \$350,000 and \$175,000, respectively, be placed on the projects. SCWC objects to such caps, arguing that a requirement for the filing of suitable work papers with the advice letters will allow the staff to adequately review the filing.

We agree with SCWC on this issue. No valid reason was offered by the staff for imposition of the caps except that they are necessary to place "an upper limit on the cost of the reservoir in order to ensure...that the cost would not skyrocket for some reason." (Tr., p. 657.) While the costs discussed are the utility's estimates, they are only estimates. It would be unreasonable to impose a cap on a necessary project if some condition beyond the control of the company should arise affecting

the cost. We will not impose the caps; however, we will place SCWC on notice that we expect its estimates to represent sincere appraisals of the actual expected costs for these projects, and that work papers submitted with the advice letter filings must fully support whatever final costs are incurred.

#### Apache Well

SCWC requests \$4,300 in rate base for fencing in the Apache Well. The well, contaminated by gasoline in 1980, has not produced water for over six years. The company purchases "almost a hundred percent" of the water in the Rimforest system, where this well is located from the Crestline-Arrowhead Water Agency. Staff believes the well is a good candidate for retirement.

SCWC has retained the well in the hope that, through continued ground water percolation, the gasoline concentrations will eventually be eliminated so that the well can once again be used. In the interim, SCWC uses the site for storage. SCWC witness Thompson testified that the area is subject to some trespassing, and occasionally used as a trash dumping area. In the circumstances, since it is unrefuted that the company uses the area for storage, it is reasonable to allow the amount estimated for fencing in rate base.

#### Specific Complaints

David Pontell, a resident of Big Bear and a customer of SCWC, testified that two or three times every year since 1973 a leak has occurred in front of a building Pontell owns on Big Bear Boulevard. He stated that recently hundreds of gallons had leaked there from a Friday, when the leak was reported, to the following Monday. Pontell urged that the staff's recommendation for this district regarding rate reduction be adopted; but qualified that recommendation by moving that no action be taken relative to rates - increases or decreases - until after the results of the eminent domain proceeding, commencing in October, are known.

Pontell is spokesman for a group called The Citizens Committee for Improved Water and Electric Service, consisting of approximately 700 people. While this is a significant number of customers, there are over 11,000 customers in this district. Since we are requiring reductions in rates for 1988 and since the eminent domain action is problematic at this point, we do not deem Pontell's request for deferral sufficient reason for holding our decision on this application. The motion will be denied.

Robert Pratte is President of Comstock Construction Company. He has been a customer in the district for 30 years. He believes that if SCWC were to eliminate needless waste and inefficiency there would be no need for a rate increase.

Pratte testified concerning the request for master metering of a condominium project on Goldmine property at no cost to the utility, and the refusal by SCWC because of concerns over possible tax consequences if the plan were deemed a scheme to evade taxes. The proposal is described in a letter (Exhibit 32) from Roscoe Anthony, SCWC's Senior Vice President, to Joe Shuff, President and Chief Executive Officer of Goldmine. In Anthony's letter he states that master meters are being discouraged throughout California due to the loss of control of conservation. Pratte also testified regarding the possible donation by him of a plot of land as a site for a tank. Anthony, however, testified that the proposed transaction actually involved an exchange, rather than a donation of land. He also iterated his position in the Exhibit 32 letter that master metering is a bad policy because it does not encourage conservation. In sum, Anthony refuted Pratte's testimony. Pratte's testimony was allowed by the ALJ over SCWC's objection only insofar as it might tend to demonstrate that the utility was not being operated efficiently. If a private dispute exists between Pratte and SCWC, that dispute may be resolved in an appropriate forum, but not as a part 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. It also reflects exclusion of the three general office rate base items discussed supra, the Yosemite Reservoir and associated 10-inch main, the staff calculations for payroll expenses and purchased services and materials and supplies, and inclusion of the cost for fencing the Apache Well requested by SCWC. Furthermore, it reflects the staff's recommendation that SCWC replace 18,000 feet of steel mains per year. (SCWC had budgeted 15,000 feet in 1988, and 13,000 feet in 1989.)

TABLE 1

SOUTHERN CALIFORNIA WATER COMPANY  
Big Bear DistrictAdopted Summary of Earnings  
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	-----1988-----	
	Present	Authorized
	-----	
	(Thousands of Dollars)	
Total Revenues	\$ 3,986.2	\$ 3,757.7
Operating Expenses		
Oper. & Maint.	1,146.0	1,145.2
Adm. & Gen.	214.5	214.5
Gen. Off. Alloc.	134.3	134.3
Depreciation	346.6	346.6
Other Taxes	168.5	165.0
State Franch. Tax	148.3	126.8
Federal Inc. Tax	449.5	380.6
Total	2,607.7	2,513.0
Net Income	1,378.5	1,244.7
Rate Base	11,250.4	11,250.4
Rate of Return	12.25	11.06

	-----1989-----	
	Present	Authorized
	-----	
	(Thousands of Dollars)	
Total Revenues	\$ 4,118.5	\$ 3,979.1
Operating Expenses		
Oper. & Maint.	1,186.7	1,186.2
Adm. & Gen.	225.1	225.1
Gen. Off. Alloc.	140.5	140.5
Depreciation	370.4	370.4
Other Taxes	178.4	176.3
State Franch. Tax	143.5	130.4
Federal Inc. Tax	457.7	415.7
Total	2,702.3	2,644.5
Net Oper. Revenue	1,416.2	1,334.6
Rate Base	12,053.4	12,053.4
Rate of Return	11.75	11.07

Issues Regarding Goldmine  
Ski Association, Inc.

Benno Nager, Vice President of Operations of Goldmine Ski Association, Inc. (Goldmine), testified concerning a history of leaks in the Moonridge area of SCWC's Big Bear District, where Goldmine operates a ski resort, and outages occurring there. One of the exhibits sponsored by Nager - Exhibit 20 - is a reproduction of a 1972 local newspaper article which discusses the fact that there were water problems in the upper portion of Moonridge for 20 years. The article also states that SCWC had only owned the system for 18 months at that time. He also sponsored Exhibit 30, consisting of four photographs. One portrays the Dogwood tank overflowing, at a rate estimated by Nager at approximately 200 gallons per minute and being lost into a drain rather than being returned to the system. Another photograph shows some erosion resulting from the overflow. The main thrust of Nager's testimony is that water problems, particularly leaks, recur annually without any apparent resolution of the problems causing the leaks.

Joe Shuff also testified on behalf of Goldmine. He stated that Goldmine is a recreation business, employing 300 people in season. He stated that on December 10, 1986 SCWC's Sand Canyon pump failed, and was not repaired for a week. Shuff believes it could have been done in 24 hours. He testified that SCWC, due to an agreement he "had foolishly made based on their commitments many years before, turned our water off and we were shut down as far as snow-making was concerned."

Shuff sponsored Exhibits 34 through 38. Exhibit 34 is a copy of a letter to SCWC from the staff dated February 20, 1987. It expresses the staff opinion that Goldmine is not on interruptible rates, and that the applicable tariff does not permit the locking of Goldmine's meters except in very specific instances. The letter also commented that a 15-foot level then maintained in



the Lassen tank, which serves Goldmine, is higher than necessary except on weekends.

Exhibit 35 is a staff report dated February 1987 on the informal complaint of Shuff. The report, prepared by Larry Hirsch, Associate Utility Engineer, recommended that a 9- to 11-foot level be maintained in the Lassen tanks Monday through Thursday, with a higher level maintained for peak demand. Hirsch also recommended that SCWC investigate the purchasing of leak detection equipment, and in the meantime, foot patrol the Moonridge area at least once a week when losing capacity to detect and shut off leaks. The report suggested that, since SCWC appeared to be using Goldmine as an interruptible customer, the possibility of a curtailable rate schedule could be explored. Finally, the report recommended that if service cannot be improved, a moratorium on new connections for commercial or light industrial customers could be instituted in the district until the various problems experienced in the area are resolved.

The report discussed the complaint, in which Shuff had alleged that his service had been shut off for two weeks, and states that the two meters in the ski area had delivered uninterrupted service throughout the period except for three days when the Lassen tank level was at 9.5 feet on January 19, and again when the level reached 13 feet on January 24, 1987.

SCWC answered the staff letter of February 20 with a letter dated March 4, 1987, from the company's Manager of Operations, Ron Thompson. Thompson stated that SCWC would continue using 15 feet as a minimum storage level for the Lassen tanks, since it had established that it was necessary to maintain a minimum of 10.5 feet during the week, and 15.9 feet during weekends in order to meet fire-flow storage requirements of 240,000 gallons. Two thousand gallons per minute are required by the City of Big Bear Lake Fire Department for Goldmine, which equate to 8.2 feet of water in the Lassen tanks; and 2.3 feet and 7.7 feet of additional

storage is needed to meet peak hour domestic demands during weekdays and weekends, respectively. Thompson pointed out that using the 10.5 feet during the week would not mean more water for Goldmine than under the 15-foot operation, since SCWC would have to suspend water deliveries sooner during the week in order to achieve the 15.9-foot level for peak domestic demands. Thompson stated in his letter that the company has in its 1987 budget pumps, to be installed near Goldmine's chalet, to use underground springs to augment the existing supply available for snow-making. Further, a booster pump is being considered for inclusion in SCWC's capital budget which will help matters in the Moonridge area.

The staff determined from the fire chief having authority in the Moonridge area that 1,500 gallons per minute, or 6.5 feet, is necessary for fire-flow requirements, to which the requirement for serving the customers must be added. Hence the staff's recommendation of 9 to 11 feet during the week as minimum tank levels.

A letter dated January 27, 1987 from SCWC to the Commission, included as part of the Hirsch report indicates that Goldmine has a storage capacity on its property of about 12,000,000 gallons, while SCWC has a capacity of about 1,000,000 gallons.

Shuff testified that while his meters at Goldmine were being shut down, SCWC was delivering water for snow-making to two new customers in the same part of the district, namely, Snow Forest, and a snow play area at Rebel Ridge. Shuff requests that a moratorium be imposed banning new connections until the problems are resolved. This recommendation comports with the one contained in the Exhibit 35 report, and we assume is intended to apply to connections other than new homes.

Shuff requested that SCWC be required to maintain the level in the Lassen tanks recommended by the staff in the Exhibit 35 report, and also that the Commission give Goldmine a

decision on the legality of SCWC's right to shut off a regular metered customer.

Staff in its brief asks that official notice be taken of Rule 14 in SCWC's tariffs, relating to Continuity of Service. Official notice is hereby taken of the rule in question, which is reproduced below.

Rule No. 14

CONTINUITY OF SERVICE

A. Emergency Interruptions

1. The utility will make all reasonable efforts to prevent interruptions to service and when such interruptions occur will endeavor to re-establish service with the shortest possible delay consistent with the safety to its customers and the general public.
2. Where an emergency interruption of service affects the service to any public fire protection device, the utility will promptly endeavor to notify the Fire Chief or other public official responsible for fire protection of such interruption and of subsequent restoration of normal service.

B. Scheduled Interruptions

1. Whenever the utility finds it necessary to schedule an interruption to its service, it will, where feasible, notify all customers to be affected by the interruption, stating the approximate time and anticipated duration of the interruption. Scheduled interruptions will be made at such hours as will provide least inconvenience to the customers consistent with reasonable utility operations.
2. Where public fire protection is provided by the mains affected by the interruptions, the utility will promptly endeavor to notify the Fire Chief or other officials responsible for fire protection, stating the approximate time and anticipated duration. In addition, the Fire Chief or other official responsible for fire protection will be notified promptly upon restoration of service.

C. Apportionment of Supply During Times of Shortage

During times of threatened or actual water shortage, the utility will apportion its available water supply among its customers as directed by the Public Utilities Commission. In the absence of direction from the Commission, it will apportion the supply in the manner that appears most equitable under circumstances then prevailing, and with due regard to public health and safety.

Shuff requests some assurance that Goldmine will be able to do business this winter, i.e., receive a steady supply of water. He also asks for a rate reduction more in line with the type of service he has been receiving; or, alternatively, he would just as soon pay the full rate and have SCWC ordered not to interrupt the Goldmine service. Shuff stated that Goldmine drilled a well about five years ago, and that very recently began drilling another well to supplement the water received from SCWC.

Ron Thompson testified concerning SCWC's plans to add booster plants in the area in order to increase the amount of water delivered to the Lassen tanks. He stated that he had agreed to allow Goldmine to draw the Lassen tanks down to 12 feet on a two-week trial period, and to 15 feet during weekends. Thompson also extended this agreement into the coming snow season, subject to change based upon water availability.

Shuff stated that Goldmine needs 300 gallons per minute. Thompson testified that based upon current and expected deliveries SCWC would be able to allow Goldmine the 300 gallons per minute needed, but could not guarantee it.

In response to a question from Shuff concerning SCWC's right to shut off Goldmine's water, Mr. Caveney cited Section 353 of the California Water Code. This section of the Water Code (Statutes, 1943) reads as follows:

"When the governing body has so determined and declared the existence of an emergency condition of water shortage within its service area, it shall thereupon adopt such regulations and restrictions on the delivery of water and the consumption within said area of water supplied for public use as will in the sound discretion of such governing body conserve the water supply for the greatest public benefit with particular regard to domestic use, sanitation, and fire protection." (Emphasis added.)

Section 350 of the Water Code is also pertinent to these circumstances, and reads as follows:

"The governing body of a distributor of a public water supply, whether publicly or privately owned and including a mutual water company, may declare a water shortage emergency condition to prevail within the area served by such distributor whenever it finds and determines that the ordinary demands and requirements of water consumers cannot be satisfied without depleting the water supply of the distributor to the extent that there would be insufficient water for human consumption, sanitation, and fire protection."

The leading case found in connection with these sections is Swanson v Marin Municipal Water District (1976) 56 CA 3d 512, in which the appellate court found that the water supplier is empowered to maintain an appropriate reserve of water to meet future needs, and that it need not empty its reservoir before undertaking conservation measures.

Further, we held in Investigation of Peters-Rhoades Company (1925) 27 C.R.C. 297 that domestic service must take precedence over all other water use, and that demands for a swimming tank are subordinate to domestic demands, even to the extent of requiring abandonment of the swimming tank water service by the utility, if necessary.

It is our opinion that the Water Code sections cited above provide adequately for the interruption of water delivery to Goldmine in the circumstances described on this record. However, Water Code Sections 351 and 352 require the conduct of a properly noticed public hearing before the governing board of the water supplier before such emergency action may be instituted, except in the case of breakage or failure of a dam, pump, pipeline, or conduit. In this case, it appears that some of the shutdowns to Goldmine may be attributable not to breakage or failure of a dam, pump, etc., but rather to the overtaxing of the Moonridge system

because of heavy demand during peak times, e.g., Fourth of July weekend, ideal ski conditions, etc. If Goldmine believes that a public hearing is required in those circumstances before shutting off its water, it may pursue its remedy in the appropriate forum at that time.

After consideration, it is our opinion that the recommendations made by Shuff on behalf of Goldmine should not be adopted. Firstly, SCWC's Tariff Rule 14 does appear to be applicable to the circumstances before us, and to provide authority for curtailment of Goldmine's service in those circumstances. The rule also appears proper when considered in light of the provisions of the Water Code cited above. Secondly, Goldmine is already paying a lower rate for its water; and both SCWC and the staff are recommending that the differential between the first and second block rates be increased, which will benefit a large user such as Goldmine. We are adopting that rate recommendation in our decision today. Thus, the rate paid by Goldmine under present rates is less than the rate paid by any other consumer in the Big Bear District, and there will be an even greater differential under our adopted rates. Thirdly, the testimony of company witnesses assures us that there will be a significantly greater possibility of meeting Goldmine's needs henceforth than in the past, due to the utility's plans to augment the delivery of water to the Lassen tanks, e.g., through the increased use of booster pumps, main replacements and repairs, etc. Fourthly, Goldmine's plan to drill a well or wells of its own, hopefully successful, will increase its water supply. Assuredly, Goldmine has a valid interest in obtaining water to meet its snow-making needs; however, that interest must be of subordinate priority than the domestic, sanitary, and fire-flow requirements of other neighboring homeowners consumers. While SCWC has agreed to allow Goldmine to draw down on the Lassen tanks to a level of 12 feet, information contained in the Hirsch report (Exhibit 35) suggests that levels of 11 feet in non-peak periods,

and 15 feet during peak periods will allow for safe and adequate service in the Moonridge area. We do not deem a moratorium on service connections necessary at this time, but will direct the staff to monitor conditions in the district and report to us on the possibility of such a necessity.

#### Customer Service

Big Bear District serves a resort area with many second homes and part-time residents. During most of the year, the water system has adequate capacity. However, during ski season and on summer weekends and holidays, the population in the district greatly increases, thus putting a strain on the water system. SCWC does not draw water out of the Big Bear Lake but relies on wells for its water production. This is a water-short area and precipitation during the last few years has been below normal. This further reduces the water supply.

#### Complaints

SCWC keeps records of the complaints that it receives from customers. Staff made a tabulation of the complaints received over the last four years and the first quarter of 1987, as shown below.

<u>Year</u>	<u>Billing</u>	<u>Pressure</u>	<u>Quality</u>	<u>Other</u>	<u>Main Leaks</u>
1983	2,382	133	33	10	1,690
1984	574	107	37	1,925	1,548
1985	1,177	213	41	1,081	1,079
1986	2,054	203	91	1,711	718
1987*	491	142	143	920	185

\*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 category "main leaks" includes leaks that are in the water mains, or before the meter. These are leaks that the utility has the responsibility to repair. The water quality complaints include complaints about the taste, odor, and appearance (e.g., dirt or 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." The recently increasing number of complaints regarding pressure and quality is largely attributable to dropping water tables over the last three years.

Big Bear District has a large number of complaints for leaks. Many of the complaints in the "Other" category are frozen or leaking service lines that are the responsibility of the customer rather than the utility. The number of leaks is to a great extent dependent on weather. During the winter, freezing weather causes meters and service pipes to freeze and break. The water loss resulting from these leaks can be a significant portion of the water capacity for this district. Due to the main replacement program, the number of complaints for leaks is being reduced; however, continuation of the program is necessary to reduce the leaks even further. Staff has recommended, and SCWC agrees, that 18,000 feet of mains replacement in each of the test years should be undertaken.

Staff reports that there are also many complaints for high bills. This is not unusual where there is a resort area with second homes. Resort areas are often built with smaller than usual water mains since they are used only part time and often have a low density of connections. This results in service charges that are generally higher than those in the high density, urban areas where most of the customers live. Bimonthly billing by the utility gives the perception of a high monthly bill, since customers often mistakenly believe that the bimonthly bill is for only one month.

### Summer Water Shortage

As in other resort areas, meeting the summer peak demand is also a problem. During the past Fourth of July weekend, there was a water outage in the Big Bear District, primarily in the Wolf Tank Zone and the upper Moonridge area. Many houses on July 5 and 6 had water service only in the very early morning hours after midnight. For about 30 services, water service was not restored until July 7. The factors contributing to this water outage included high demand because of the large number of people in the area and reduced production in some wells due to the dropping water table. There was also a 120-acre fire in the Baldwin Lake area, and the utility believes that persons in the area were wetting down their property to reduce the fire hazard. These conditions are reported in staff Exhibit 17.

The Big Bear Lake City Council adopted several emergency water conservation recommendations such as restricting hours of watering plants and lawns, eliminating hosing down of sidewalks, driveways, etc. and some similar water use restrictions. A moratorium on construction in Moonridge is also being considered by local authorities. The fire department issued an announcement of the recommendations for water conservation for the duration of the summer and noted that water conservation kits are available free from SCWC. SCWC also sent each customer a copy of the city council resolution and advised that water conservation kits are available.

### Winter Water Shortage

SCWC also experiences water shortages in the winter, mainly due to freezing weather which causes leaks and frozen pipes. The meters used in the Big Bear District have a cast iron frost bottom which is designed to break if the water in the meter freezes. This protects the more expensive components of the meter. However, whenever one of these meters freezes, there is a leak of 20 to 30 gallons per minute. During particularly cold spells, the aggregate leaks can result in a water capacity shortage.

### Water Supply Improvement

SCWC currently has plans to install a booster pump to lift water from the lower zone to the Moonridge area. The utility also plans to redevelop a slant well which is currently not used. While these projects will not solve the problem that caused the summer water outage, they will certainly help the situation at a relatively modest cost compared to developing additional water supply.

The winter water shortage seems to be caused by a large number of leaks and other operational problems (for example, a pump failure). Staff recommends that SCWC should repair failures in a timely manner, and if there are unavoidable delays, SCWC should let its customers know that they are working to solve the problem. In addition, SCWC should increase its leak detection program in the winter with foot patrols in areas likely to have leaks after cold weather. If the water level in the reservoirs does not increase during off-peak, low demand times, then SCWC should increase its leak detection efforts and make timely repairs to allow the reservoirs an opportunity to refill.

### Customer Relations Programs

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, issued April 22, 1987, ordered SCWC to include in the public relations program the districts in these applications: Santa Maria, Ojai, Simi Valley, Clearlake, Bay, and Calipatriland.

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 its 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. Social sends periodic reports on its public relations program to the Commission staff.

Staff reports that 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 when the plans have been 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>
BB-1	General Metered Service
BBF-2	General Flat Rate Service (Fawnskin area)
AA-4	Private Fire Service

The service charge rates presently in effect under the General Metered Service tariff schedule were designed to recover approximately 70% of the fixed costs. The utility's proposal for the general metered service maintains that ratio.

The General Flat Rate Service and Private Fire Service rates are proposed to be increased by amounts generally consistent with the system-wide percentage increases.

The tables below (from staff Exhibit 17) 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.

Big Bear District

## SCHEDULE NO. 88-1, GENERAL METERED SERVICE

Description	1987		1988		1989		1990			
	Rates	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change
SERVICE CHARGE										
5/8" meter	\$17.60	\$19.05	\$1.45	8.24%	\$20.10	\$1.05	5.51%	\$20.65	\$5.55	2.74%
3/4" meter	23.70	25.50	1.80	7.59%	26.00	.50	1.96%	26.85	.85	3.27%
1" meter	40.10	43.40	3.30	8.23%	44.00	.60	1.38%	45.20	1.20	2.73%
1-1/2" meter	53.00	56.00	3.00	5.66%	58.00	2.00	3.57%	60.00	2.00	3.45%
2" meter	70.00	74.00	4.00	5.71%	78.00	4.00	5.41%	80.00	2.00	2.56%
3" meter	123.00	130.00	7.00	5.69%	135.00	5.00	3.85%	138.00	3.00	2.22%
4" meter	166.00	172.00	6.00	3.61%	185.00	13.00	7.56%	190.00	5.00	2.70%
6" meter	280.00	296.00	16.00	5.71%	306.00	10.00	3.38%	316.00	10.00	3.27%
8" meter	402.00	426.00	24.00	5.97%	440.00	16.00	3.29%	454.00	14.00	3.18%
COMMODITY CHARGE										
First 150 CCF, per CCF	1.3640	1.4490	.0850	6.23%	1.4970	.0480	3.31%	1.6030	.1060	7.08%
Over 150 CCF, per CCF	1.0440	1.0980	.0540	5.17%	1.1120	.0140	1.28%	1.1570	.0450	4.05%

## BILL ANALYSIS - 5/8" meter

Monthly Usage CCF	1987		1988		1989		1990			
	Rates	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change	Proposed Rates	Dollar Change	Percent Change
0	\$17.60	\$19.05	\$1.45	8.24%	\$20.10	\$1.05	5.51%	\$20.65	\$5.55	2.74%
3	21.69	23.40	1.71	7.86%	24.59	1.19	5.10%	25.46	.87	3.53%
6(avg)	25.78	27.74	1.96	7.60%	29.08	1.34	4.82%	30.27	1.19	4.08%
10	31.24	33.54	2.30	7.36%	35.07	1.53	4.56%	36.68	1.61	4.59%
25	51.70	55.28	3.58	6.91%	57.53	2.25	4.07%	60.73	3.20	5.56%
50	85.80	91.50	5.70	6.64%	94.95	3.45	3.77%	100.80	5.85	6.16%
100	154.00	163.95	9.95	6.46%	169.80	5.85	3.57%	180.95	11.15	6.57%
200	274.40	291.30	16.90	6.16%	300.25	8.95	3.07%	318.95	18.70	6.23%

As shown in the tables for the General Metered Service, increases were applied to both the service charges and the commodity rates for 1988, 1989, and 1990. Two commodity blocks were retained since the second block is required to establish an industrial rate for the one large user, Goldmine.

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.

The policy, among other things, established that 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. Transmission and distribution expense
3. Customer account expense, excluding uncollectibles
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 costs.

The service charge revenue recovery obtained by staff (from the general metered services) from the utility's workpapers at present rates for 1988 as a percentage of the fixed costs is 70%. Although the Commission's rate design policy 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% revenue. In this case, staff recommends that because the service area is primarily a resort area the high percentage of revenue recovered by the service charges is reasonable. 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. Staff believes it is appropriate to weigh the rate more heavily with fixed costs so that seasonal users pay their fair share of those fixed costs. We agree with the staff in these circumstances.

#### Balancing Accounts

In July 1987 SCWC 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 \$56,885 undercollection or 1.4% 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.

#### 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 would be authorized, but for our adoption of a levelized (reduced) rate for the three-year period involved, also discussed below.

#### 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, SCWC 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 Summary of Earnings previously discussed.

#### Levelized Rates

Based upon our adopted Summary of Earnings, we could order a reduction in rates in 1988 of \$228,500 or 5.7%, and authorize rate increases of \$98,000 or 2.5% in both 1989 and 1990. However, we can insure that SCWC has the opportunity to earn the revenues found necessary for the three-year period by ordering a constant, levelized reduction in revenues of \$136,300 or 3.3% for this period. This will result in better administrative efficiency and economy for SCWC and the Commission. This levelized constant rate reduction will be adopted. Average customer bills will be reduced by approximately 3.6% under this plan.

In accordance with Public Utilities Code Section 311, as amended by Assembly Bill 3383, the ALJ's proposed decision was mailed to appearances on December 14, 1987. Comments were received from the staff, recommending only minor modifications, which have been incorporated herein.

#### Findings of Fact

1. SCWC's rates in this district were last adjusted January 1, 1987 by advice letter filing authorized pursuant to D.85-05-049.
2. 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.
3. Adoption of an ROE of 12.5% for the Big Bear district for 1988, 1989, and 1990 is reasonable, subject to amendment by Commission order in the event that a different ROE is adopted in a rate proceeding for other districts of SCWC. In that case, the ROE

for Big Bear, like the Arden-Cordova district, may be amended to conform with the newly-adopted ROE. The capital ratios set forth in this decision are reasonable and should be adopted for 1988, 1989, and 1990.

4. The cost requested by SCWC for fencing the Apache Well - \$4,300 - is reasonable.

5. It would be inappropriate to grant the request of the Citizens Committee for Improved Water and Electric Service for deferral of action on this application.

6. The items requested by SCWC for its general office rate base - renovation, mainframe computer, and customer information system - and the cost for the Yosemite Reservoir and associated 10-inch main should not be allowed in rate base until actually completed, installed, and in operation.

7. The amounts recommended by the staff for payroll, materials and supplies, purchased services, injuries and damages, employee pensions, and taxes, other than income, are reasonable, and should be adopted, rather than the amounts recommended for these categories by SCWC.

8. The lower rates for water service to Goldmine are for snow-making, rather than domestic use.

9. Water levels in the Lassen tanks of 11 feet during non-peak periods, and 15 during peak periods, will allow SCWC to provide adequate service to the customers in the Moonridge area.

10. The staff-recommended rate design is reasonable and should be adopted, subject to our adopted levelized rate reduction for the three-year period.

11. The decreases in 1988 in rates and charges required 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.

#### Conclusions of Law

1. A constant reduction in revenues of \$136,300 or 3.3% during 1988, 1989, and 1990 is reasonable based upon our adopted results of operations for SCWC's Big Bear District.

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

3. The effective date of this order should be today, since reductions are being ordered in 1988.

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

5. SCWC should also be authorized to make an advice letter filing for the cost of the Yosemite Reservoir and the 10-inch main associated with its construction, when the projects are completed and in operation.

6. The motion of the Citizens Committee for Improved Water and Electric Service for deferral of action on this application should be denied.

7. The lower rates applicable to Goldmine may be considered interruptible, in light of Water Code Sections 350 and 353.

8. Goldmine should be allowed to have water from the Lassen tanks provided water levels in the tanks are no lower than 11 feet during non-peak periods, and 15 feet during peak periods.

#### ORDER

##### IT IS ORDERED that:

1. Southern California Water Company (SCWC) shall file for its Big Bear District, effective 5 days after today, the reduced rate schedules in Appendix A. The filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. SCWC is authorized to make an advice letter filing to cover the cost of general office renovation, mainframe computer, and customer information system, and for the Yosemite Reservoir and associated 10-inch main, when completed and in operation.

3. The motion by the Citizens Committee for Improved Water and Electric Service for deferral of action on this application is denied.

4. SCWC shall allow Goldmine to draw water from the Lassen tanks so long as water levels are maintained at no less than 11 feet during non-peak periods, and 15 feet during peak periods.

5. The staff shall monitor conditions in the Big Bear District, and report thereon to the Commission within 90 days after the effective date of this order, with a recommendation on the question whether a service connection moratorium is necessary.

6. On or after November 15, 1988, SCWC shall file a proportionate lesser or greater increase or reduction, which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that the Big Bear District rate of return differs from the rate of return found reasonable by the Commission for other districts of SCWC. The filing shall comply with General Order 96-A. Rates shall be effective January 1, 1989.

7. On or after November 15, 1989, SCWC shall file a proportionate lesser or greater increase or reduction, which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that the Big Bear District rate of return differs from the rate of return found reasonable by the Commission for other districts of SCWC. The filing shall comply with General Order 96-A. Rates shall be effective January 1, 1990.

This order is effective today.

Dated January 13, 1988, at San Francisco, California.

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

Commissioner Stanley W. Hulett,  
being necessarily absent, did  
not participate.

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



Victor Weiss, Executive Director

APPENDIX A  
Page 1Southern-California Water Co.  
Big Bear District

SCHEDULE NO. BB-1

## GENERAL METERED SERVICE

Applicability  
-----

Applicable to all metered water service.

Territory  
-----

Within the established Big Bear District.

Rates  
-----

## Service Charge:

Per Meter  
Per Month\*  
-----

For 5/8 x 3/4-inch meter.....	\$ 17.00 (R)
For 3/4-inch meter.....	22.90 :
For 1-inch meter.....	38.90 :
For 1 1/2-inch meter.....	51.00 :
For 2-inch meter.....	68.00 :
For 3-inch meter.....	119.00 :
For 4-inch meter.....	161.00 :
For 6-inch meter.....	271.00 :
For 8-inch meter.....	389.00 (R)

## Quantity Rates:

First 15,000 cu.ft., per 100 cu.ft.....	1.321 (R)
Over 15,000 cu.ft., per 100 cu.ft.....	.988 (R)

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 2

Southern-California Water Co.  
Big Bear District

SCHEDULE NO. BBF-2  
Fawnskin Tariff Area

GENERAL FLAT RATE SERVICE

Applicability  
-----

Applicable to all flat water service.

Territory  
-----

Community of Fawnskin, San Bernardino County.

Rates  
-----

Per Service  
Connection  
Per Month  
-----

- |  |              |
|--|--------------|
| 1. For each single unit of occupancy....   | \$ 18.30 (R) |
| 2. For each additional unit of occupancy<br>on same premises and served from same<br>service connection..... | 13.50 (R)    |

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

(End of Appendix A)

APPENDIX B

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APPENDIX C  
Page 1

Southern California Water Company  
Big Bear District

Adopted Quantities  
-----

PURCHASED POWER -----	1988 ----	1989 ----
Supplier: Bear Valley 7/87		
SoCal Edison 1/87		
Wells:		
Total Production (KCCf)	971.3	1007.3
Kwh per CCF	2.105	2.105
Total Kwh (1000)	2044.6	2120.4
Bear Valley Kwh (1000)	2036.4	2111.9
Bear Valley Unit Cost \$/Kwh	0.10309	0.10506
Total Bear Valley Well Cost	\$209,937	\$221,878
SoCal Edison Kwh (1000)	8.2	8.5
SoCal Edison Unit Cost \$/Kwh	0.10959	0.10855
Total SoCal Edison Well Cost	\$896	\$921
Energy Cost	\$210,833	\$222,799
Boosters:		
Total Production (KCCf)	1224.4	1260.4
Kwh per CCF	0.244	0.244
Total Kwh (1000)	298.2	307.0
Bear Valley Kwh (1000)	297.0	305.8
Bear Valley Unit Cost \$/Kwh	0.10309	0.10506
Total Bear Valley Booster	\$30,621	\$32,124
SoCal Edison Kwh (1000)	1.2	1.2
SoCal Edison Unit Cost \$/Kwh	0.10959	0.10855
Total SoCal Edison Booster	\$131	\$133
Total Boosters Cost	\$30,752	\$32,257
TOTAL Purchased Power	\$241,585	\$255,056
PURCHASED WATER -----		
Crestline Lake Arrowhead 7/87		
Total Purchased Water (KCCf)	25.2	25.2
Total Purchased Water (AF)	57.9	57.9
Unit Cost \$/AF	\$525.00	\$525.00
TOTAL Purchased Water	\$30,372	\$30,372
TOTAL Chemical Cost	\$3,300	\$3,300

APPENDIX C  
Page 2

Southern California Water Company  
Big Bear District

Adopted Quantities  
-----

Number of Services by Meter Size		1988	1989
-----		----	----
Schedule BB-1			
5/8 x 3/4		12,078	12,528
3/4		29	29
1		96	101
1 1/2		45	48
2		84	86
3		6	6
4		4	4
6		0	0
8		0	0
TOTAL		12,342	12,802
0 - 150 CCF		762,588	790,568
> 150 CCF		140,712	143,132
TOTAL CCF		903,300	933,700

	No. of Services		Usage (Kccf)		Avg. Usage Ccf/Yr	
	1988	1989	1988	1989	1988	1989
-----	-----	-----	-----	-----	-----	-----
Commercial Met.	12,319	12,779	813.1	843.5	66.0	66.0
Industrial	2	2	47.7	47.7	23840.0	23840.0
Public Auth.	21	21	42.5	42.5	2025.8	2025.8
Other						
-----						
Total Metered	12,342	12,802	903.3	933.7		
Flat Rate	275	225	18.2	14.9	66.0	66.0
Private Fire Prot.	21	21				
-----						
Total	12,638	13,048	921.5	948.6		
-----						
Water Loss: 17.6%			214.2	223.1		
Oper. Usage			88.7	88.7		
-----						
Total Water Produced			1224.4	1260.4		

## APPENDIX C

Page 3

## Big Bear District

## Utility Plant, Depreciation Reserve, and Rate Base

	1988 -----	1989 -----
	(Thousands of Dollars)	
<b>UTILITY PLANT</b>		
Plant BOY	\$ 18,615.8	\$ 20,115.8
Util.Add.	457.4	437.1
T.D. Mains	726.5	753.5
Co.Plant Add.Subtotal	1,183.9	1,190.6
Advances	330.0	297.7
Contributions	59.4	61.4
Total Additions	1,573.3	1,549.7
Retirement	73.3	72.0
Plant EOY	20,115.8	21,593.5
Wgt.Plant @ 33.6%	504.0	496.5
Wgt. Avg. Plant	19,119.8	20,612.3
<b>DEPRECIATION RESERVE</b>		
Reserve BOY	2,773.3	3,091.2
Contrib.	21.0	29.3
Depr Exp. (2.14%)	346.6	370.4
Clear.Chg.	23.6	23.6
Total Accrual	391.2	423.3
Retirement	73.3	72.0
Reserve EOY	3,091.2	3,442.4
Wgt.Accr. Add.50	158.9	175.6
Avg Depr.Res.wtg.	2,932.2	3,266.8
<b>RATE BASE</b>		
Utility Plant	19,119.8	20,612.3
Material & Sup.	131.9	131.9
Work.Cash Allow.	141.4	141.4
Deprec.Reserve	-2,932.2	-3,266.8
Advances For Constr.	-3,177.8	-3,377.9
Contributions-in-Aid	-608.1	-643.4
Gen.Office Alloc.	120.4	139.5
Unamort.Defer.Taxes	-1,197.7	-1,414.8
Unamort.ITC	-489.1	-477.4
Capit.Items	27.2	27.4
CIAC FTC	114.6	181.2
Avg RATE BASE	11,250.4	12,053.4

## APPENDIX C

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Big Bear District  
Income Tax Calculations

	1988 -----	1989 -----
	(Thousands of Dollars)	
Total Revenues	\$ 3,757.7	\$ 3,979.1
Purch. Power	241.6	255.0
Purch. Water	30.4	30.4
Purch. Chem	3.3	3.3
Payroll	457.4	481.6
OM Other	435.7	440.2
AG Other	35.7	36.9
Pension	64.0	67.4
Inj. Damage	77.6	81.7
Gen. Office Alloc.	134.3	140.5
Payroll Tax	33.7	35.4
Ad Valorem Taxes	74.3	80.5
Unc .00372	14.0	14.8
Loc. Franch..01523	57.0	60.4
subtotal	1,659.0	1,728.1
Interest	504.6	539.6
Total Deductions	2,163.7	2,267.7
State Tax Deprec.	273.7	353.1
State Tax 9.3	126.8	130.4
Fed Tax Deprec.	347.8	358.4
Fed Tax 34%	380.6	415.7
Total Federal Taxes	380.6	415.7
Net/Gross	1.702700	

(End of APPENDIX C)

APPENDIX D  
Big Bear District

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

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

: Monthly Usage:	At Present	:At Authorized :	Percent	:
: (Cubic Feet):	Rates	: Rates :	Increase	:
300	\$ 21.69	\$ 20.96	-3.4 %	
500	23.78	22.94	-3.5	
550 (Avg.)	24.30	23.43	-3.6	
1,000	29.00	27.88	-3.9	
2,000	39.44	37.76	-4.3	
3,000	49.88	47.64	-4.5	
5,000	70.76	67.40	-4.7	
10,000	122.96	116.80	-5.0	
20,000	227.36	215.60	-5.2	

(End of Appendix D)

(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 ROE 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.)

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>	<u>12.50</u>	<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>	<u>12.50</u>	<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>	<u>12.50</u>	<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.

The company initially requested an increase in rates of approximately 7.50%, whereas the staff recommended a decrease in rates in 1988 of 9.65%, and an increase in 1989 of 2.32%. Differences are attributable primarily to estimates for payroll

the cost. We will not impose the caps; however, we will place SCWC on notice that we expect its estimates to represent sincere appraisals of the actual expected costs for these projects, and that work papers submitted with the advice letter filings must fully support whatever final costs are incurred.

Apache Well

SCWC requests \$4,300 in rate base for fencing in the Apache Well. The well, contaminated by gasoline in 1980, has not produced water for over six years. The company purchases "almost a hundred percent" of the water in the Rimforest system, where this well is located from the Crestline-Arrowhead Water Agency. Staff believes the well is a good candidate for retirement.

SCWC has retained the well in the hope that, through continued ground water percolation, the gasoline concentrations will eventually be eliminated so that the well can once again be used. In the interim, SCWC uses the site for storage. SCWC witness Thompson testified that the area is subject to some trespassing, and occasionally used as a trash dumping area. In the circumstances, since it is unrefuted that the company uses the area for storage, it is reasonable to allow the amount estimated for fencing in rate base.

David Pontell, a resident of Big Bear and a customer of SCWC, testified that two or three times every year since 1973 a leak has occurred in front of a building Pontell owns on Big Bear Boulevard. He stated that recently hundreds of gallons had leaked there from a Friday, when the leak was reported, to the following Monday. Pontell urged that the staff's recommendation for this district regarding rate reduction be adopted; but qualified that recommendation by moving that no action be taken relative to rates - increases or decreases - until after the results of the eminent domain proceeding, commencing in October, are known.

Pontell is spokesman for a group called The Citizens Committee for Improved Water and Electric Service, consisting of



approximately 700 people. While this is a significant number of customers, there are over 11,000 customers in this district. Since we are requiring reductions in rates for 1988 and since the eminent domain action is problematic at this point, we do not deem Pontell's request for deferral sufficient reason for holding our decision on this application. The motion will be denied.

Robert Pratte is President of Comstock Construction Company. He has been a customer in the district for 30 years. He believes that if SCWC were to eliminate needless waste and inefficiency there would be no need for a rate increase.

Pratte testified concerning the request for master metering of a condominium project on Goldmine property at no cost to the utility, and the refusal by SCWC because of concerns over possible tax consequences if the plan were deemed a scheme to evade taxes. The proposal is described in a letter (Exhibit 32) from Roscoe Anthony, SCWC's Senior Vice President, to Joe Shuff, President and Chief Executive Officer of Goldmine. In Anthony's letter he states that master meters are being discouraged throughout California due to the loss of control of conservation. Pratte also testified regarding the possible donation by him of a plot of land as a site for a tank. Anthony, however, testified that the proposed transaction actually involved an exchange, rather than a donation of land. He also iterated his position in the Exhibit 32 letter that master metering is a bad policy because it does not encourage conservation. In sum, Anthony refuted Pratte's testimony. Pratte's testimony was allowed by the ALJ over SCWC's objection only insofar as it might tend to demonstrate that the utility was not being operated efficiently. If a private dispute exists between Pratte and SCWC, that dispute may be resolved in an appropriate forum, but not as a part of this proceeding.

In accordance with that decision, SCWC 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 Summary of Earnings previously discussed.

#### Levelized Rates

Based upon our adopted Summary of Earnings, we could order a reduction in rates in 1988 of 5.7%, and authorize rate increases of 2.5% in both 1989 and 1990. However, we can insure that SCWC has the opportunity to earn the revenues found necessary for the three-year period by ordering a constant, levelized reduction in revenues of 3.3% for this period. This will result in better administrative efficiency and economy for SCWC and the Commission. This levelized constant rate reduction will be adopted. Average customer bills will be reduced by approximately 3.6% under this plan.

#### Findings of Fact

1. SCWC's rates in this district were last adjusted January 1, 1987 by advice letter filing authorized pursuant to D.85-05-049.
2. 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.
3. 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.
4. The cost requested by SCWC for fencing the Apache Well - \$4,300 - is reasonable.
5. It would be inappropriate to grant the request of the Citizens Committee for Improved Water and Electric Service for deferral of action on this application.

6. The items requested by SCWC for its general office rate base - renovation, mainframe computer, and customer information system - and the cost for the Yosemite Reservoir and associated 10-inch main should not be allowed in rate base until actually completed, installed, and in operation.

7. The amounts recommended by the staff for payroll, materials and supplies, purchased services, injuries and damages, employee pensions, and taxes, other than income, are reasonable, and should be adopted, rather than the amounts recommended for these categories by SCWC.

8. The lower rates for water service to Goldmine are for snow-making, rather than domestic use.

9. Water levels in the Lassen tanks of 11 feet during non-peak periods, and 15 during peak periods, will allow SCWC to provide adequate service to the customers in the Moonridge area.

10. The staff-recommended rate design is reasonable and should be adopted, subject to our adopted levelized rate reduction for the three-year period.

11. The decreases in 1988 in rates and charges required 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.

#### Conclusions of Law

1. A constant reduction revenue of 3.3% during 1988, 1989, and 1990 is reasonable based upon our adopted results of operations for SCWC's Big Bear District.

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

3. The effective date of this order should be today, since reductions are being ordered in 1988.

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

5. SCWC should also be authorized to make an advice letter filing for the cost of the Yosemite Reservoir and the 10-inch main associated with its construction, when the projects are completed and in operation.

6. The motion of the Citizens Committee for Improved Water and Electric Service for deferral of action on this application should be denied.

7. The lower rates applicable to Goldmine may be considered interruptible, in light of Water Code Sections 350 and 353.

8. Goldmine should be allowed to have water from the Lassen tanks provided water levels in the tanks are no lower than 11 feet during non-peak periods, and 15 feet during peak periods.

ORDER

IT IS ORDERED that:

1. Southern California Water Company (SCWC) shall file for its Big Bear District, effective 5 days after today, the reduced rate schedules in Appendix A. The filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. SCWC is authorized to make an advice letter filing to cover the cost of general office renovation, mainframe computer, and customer information system, and for the Yosemite Reservoir and associated 10-inch main, when completed and in operation.

3. The motion by the Citizens Committee for Improved Water and Electric Service for deferral of action on this application is denied.

4. SCWC shall allow Goldmine to draw water from the Lassen tanks so long as water levels are maintained at no less than 11 feet during non-peak periods, and 15 feet during peak periods.

5. The staff shall monitor conditions in the Big Bear District, and report thereon to the Commission within 90 days after the effective date of this order, with a recommendation on the question whether a service connection moratorium is necessary.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.