

Decision 89 01 043 JAN 17 1989

(Mailed 12/14/88)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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 Barstow District.)

Application 88-05-019
(Filed May 11, 1988)

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 Desert District.)

Application 88-05-021
(Filed May 11, 1988)

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 Los Osos District.)

Application 88-05-023
(Filed May 11, 1988)

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 Metropolitan District)

Application 88-05-024
(Filed May 11, 1988)

In the Matter of the Application of)
the SOUTHERN CALIFORNIA WATER COMPANY)
(U 133 W) for an order authorizing)
it to increase rates for electric)
service in its Bear Valley Electric)
District.)

Application 88-05-026
(Filed May 11, 1988)

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applicant.

Peter Wallin, Paul Carver, and Claude Booker, for
City of Bell Gardens; and Kathy A. Davis, for
Citizens for Better Water; interested parties.

Ira Kalinsky, Attorney at Law, and Paul Chan, for
Division of Ratepayer Advocates.

INDEX

<u>Subject</u>	<u>Page</u>
OPINION	2
Summary of Decision	2
Background	2
Barstow District	3
Desert District	4
Los Osos District	5
Metropolitan District	5
Bear Valley Electric District	6
Public Meetings and Hearings	7
Issues	8
Rate of Return	21
Long-term Debt	22
Discussion	27
Return on Equity	28
Discussion	30
General Office Expenses	33
Outside Service Expenses	33
Discussion	36
Working Cash	37
Discussion	40
Tax on Unbilled Revenues	40
Discussion	41
Los Osos District - Construction of	
Calle Cordoniz Reservoir	42
Discussion	44
Interest on the Overcharges	45
Discussion	45
Bear Valley Electric District Plant Addition	46
Discussion	47

I N D E X

<u>Subject</u>	<u>Page</u>
Metropolitan District	47
Discussion	48
Service Problems in the Desert District	48
Discussion	50
Rate Design - Water	51
Rate Design - Electric	52
Discussion	53
Attrition	54
Balancing Account	54
Comments on the Proposed Decision	55
Tax on Unbilled Revenues	55
Service Problems in the Desert District	55
Branch Recommendations Regarding the Bear Valley Electric District	56
Findings of Fact	56
Conclusions of Law	61
Order	62
Appendixes A through F	

OPINION

Summary of Decision

This decision authorizes the following rate increases to Southern California Water Company (SoCalWater):

<u>District</u>	<u>1989</u>		<u>1990</u>		<u>1991</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Barstow	\$320,200	13.02	\$163,100	5.79	\$163,100	5.47
Los Osos	43,800	6.18	40,200	5.19	40,200	4.94
Metropolitan	528,900	1.98	527,100	1.94	527,100	1.90
Bear Valley Electric	200,600	2.30	82,200	0.90	76,400	0.83

The increases are based on rates of return on SoCalWater's rate base of 10.91%, 10.95%, and 10.99% for 1989, 1990, and 1991, respectively. The related return on common equity is a constant 12%.

This decision also orders further evidentiary hearings to address service problems in the Desert District and defers the rate revision for the Desert District until the hearings are completed and the Commission issues a decision.

Background

SoCalWater is an operating public utility corporation with headquarters in Los Angeles, California. SoCalWater provides water service in 17 operating districts and electric service in Big Bear Lake, California.

On May 11, 1988, SoCalWater filed applications requesting rate increases for water service in its Barstow (Application (A.) 88-05-019), Desert (A.88-05-021), Los Osos (A.88-05-023), and Metropolitan (A.88-05-024) Districts. SoCalWater also filed A.88-05-026 requesting rate increases for electric service in its Bear Valley District. SoCalWater is requesting rates which would

produce rates of return on its rate base of 11.43% in 1989, 11.49% in 1990, and 11.52% in 1991 with a constant rate of return of 13.5% on common equity in each of the three years.

SoCalWater requests the following rate increases:

<u>District</u>	<u>1989</u>		<u>1990</u>		<u>1991</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Barstow	\$ 394,000	16.12	\$188,700	6.64	\$142,000	4.93
Desert	174,000	12.48	80,200	5.10	65,300	3.89
Los Osos	64,900	9.17	46,400	5.86	40,300	4.81
Metropolitan	1,159,700	4.36	580,500	2.09	548,900	1.98
Bear Valley Electric	1,195,600	13.75	84,600	0.84	48,700	0.48

This decision addresses these applications which were filed simultaneously and consolidated for hearings. Following is a brief description of the five districts:

Barstow District

The Barstow District is located in the City of Barstow, community of Lenwood and unincorporated territory in the County of San Bernardino. The district consists of three separate systems which are scheduled for integration in 1988.

The entire water supply for the Barstow District is obtained from 21 company-owned wells located within the district near the Mojave River. The pumping capacity of the wells is dependent on the volume of groundwater in the Mojave River, which in turn is dependent on flows of storm water run off and on releases of water from Lake Silverwood in the San Bernardino Mountains.

The water produced from the wells has historically been of good quality and required little treatment. However, the Barstow District wells will require additional water treatment and testing beginning in 1989 to meet California Department of Health Services' (DHS) revised regulations and standards.

As of December 31, 1987, there were 774,325 feet of distribution mains in the Barstow District, ranging in size up to 16 inches in diameter. Storage facilities in the district consist of 12 steel or concrete tanks and reservoirs with a total capacity of 3,404,600 gallons. Also as of December 31, 1987, the district had 8,065 metered customers and 41 private fire service schedule customers. Of the total metered customers in the district, approximately 99% are in commercial classification which consists of residential and business customers.

Desert District

The Desert District is divided into two main service areas known as Morongo Valley and Victorville which are further divided into separate systems. In the northerly area, Victorville, customers are served from five separate systems spread between Lucerne Valley on the east and Apple Valley-Victorville on the west. The Morongo Valley service area subdivided into two separate systems is located in the high desert of Southern California, northeast of Palm Springs and just southwest of Yucca Valley.

The water supply for both the Morongo Valley and Victorville service areas is obtained from water wells. In the Morongo Valley service area there are two wells in the Del Norte system and six wells in the Del Sur system, two of which are not producing and are scheduled for abandonment in 1989.

The water produced from the wells is currently being served with little or no treatment except at one of the wells supplying Victorville No. 3 System. The water from this well is high in flouride content and is used only in an emergency. The wells will require additional treatment and testing to meet the requirements of DHS. During the public participation hearings (PPHs), there were many complaints by the customers about the quality of water as well as rates in the Desert District. The water quality problems are discussed under the heading "Service Problems in the Desert District".

As of December 31, 1987, there were approximately 714,580 feet of distribution mains in the Desert District. Of this, approximately 590,970 feet are in the Victorville service area and the remaining 123,610 feet are in the Morongo Valley service area.

Storage consists of 12 steel tanks. There are 7 tanks in Victorville with a combined capacity of 1,003,000 gallons. The other 5 tanks, with a combined capacity of 496,700 gallons, are in Morongo Valley.

There were 859 customers in the Morongo Valley service area and 1,963 customers in the Victorville service area as of December 31, 1987. Approximately 99% of the customers are in the commercial classification which consists of residential and business customers.

Los Osos District

The Los Osos District, located in the unincorporated area of the County of San Luis Obispo, consists of two separate systems: the Los Osos System and the Country Club-Rolling Hills System.

The majority of the area is residential with a small commercial area. Of the 2,690 total metered customers served in the Los Osos District as of December 31, 1987, over 99% are in the commercial classification which consists of residential and business customers.

The water supply for the district is obtained from a total of 9 wells located within the service territory: 5 wells are in the Los Osos System and 4 are in the Country Club-Rolling Hills System. The water produced is of good quality but will require some additional testing and treatment beginning in 1989 to meet DHS revised regulations and standards.

Storage facilities in the district consist of seven steel reservoirs or tanks with a total capacity of 962,000 gallons.

Metropolitan District

The Metropolitan District consists of three service areas: Central Basin, Culver City, and Southwest serving all or

part of 24 cities and adjacent communities in the southern portion of Los Angeles County. Five operating headquarters and five customer services offices serve the district's customers.

Water supply for the district is obtained from 70 company-owned wells and from 16 connections with member agencies of the Metropolitan Water District of Southern California. Some supplemental water is also purchased from other water purveyors.

The water produced from wells is treated with chlorine before delivery to the system as necessary. However, anticipation of revised DHS regulations have necessitated the installation of additional chlorine disinfection equipment and facilities to meet new requirements.

Storage facilities in the district consist of 42 tanks and reservoirs with a total capacity of 25,892,000 gallons and 4,435,640 feet of distribution main ranging in size up to 18 inches in diameter.

As of December 31, 1987, the district was providing water service to 89,572 customers. A majority of the area is residential with some commercial and industrial sections. Of the total customers that are served in the Metropolitan District, as of December 31, 1987, approximately 97% are in the commercial classification which consists of residential and business customers.

Bear Valley Electric District

The Bear Valley Electric District is located in the San Bernardino Mountains and the service area surrounds Big Bear Lake. Area served includes City of Big Bear Lake and communities of Big Bear City, Fawnskin, Irwin Lake, Moonridge, and Sugarloaf. The area is primarily a mountain resort with many vacation homes and cabins. The billing address for approximately 70% of the customers is other than a Big Bear Lake Valley address, mainly the greater Los Angeles area. All energy distributed is purchased from Southern California Edison Company (Edison) under its Federal

Energy Regulatory Commission Resale Rate Schedule TOU-R. The energy is furnished to the applicant through two separate Edison transmission lines, one terminating at the metering station at Gold Hill at the easterly end of Baldwin Lake and the other terminating at Camp Radford in Santa Ana Canyon with metering at the company's Harnish Substation. Applicant operates 29.5 miles overhead and .87 miles underground of 34.5 kV transmission lines and approximately 205 miles of 2.4/4.16 kV distribution lines and 16 substations with a combined capacity of 32,750 kVa.

As of December 31, 1987, there were 18,387 customers served. Service is also provided to 460 photo-electric controlled street lights.

Public Meetings and Hearings

As part of its investigation, the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division conducted informal public meetings in each of the water service districts. In addition to the project manager from the Branch, the meetings were attended by SoCalWater's vice president, manager of operations, and local district managers.

Based on the comments received at the informal public meetings, the Branch project manager recommended that PPHs be held for the Desert (Morongo Valley and Victorville service areas), Los Osos, and Metropolitan Districts. Accordingly, PPHs were held before Administrative Law Judge (ALJ) Garde in Morongo Valley, Apple Valley (for Victorville service area), San Luis Obispo (for the Los Osos District), and Los Angeles (for the Metropolitan District).

The PPHs in Morongo Valley and Apple Valley were attended by over 100 people. The customers complained about the quality and cost of water service provided by SoCalWater. The concerns expressed at the PPH for the Los Osos District focused mainly on the delay in construction of the Calle Cordoniz reservoir. The service problems associated with the Desert District and the issue

of the Calle Cordoniz reservoir, are discussed separately in this decision. No members of the public were present at the PPH for the Metropolitan District.

Informal public meetings are not required for general rate case applications involving electric service. However, a PPH was held in the City of Big Bear Lake for the Bear Valley Electric District. The hearing was attended by approximately five members of the public. Only one customer provided comments in opposition to the proposed increase. The mayor of the City of Big Bear Lake provided comments in support of the agreement between SoCalWater and the City of Big Bear Lake regarding undergrounding a portion of SoCalWater's facilities in the City of Big Bear Lake. SoCalWater will file a separate application to recover the cost of undergrounding its facilities in the City of Big Bear Lake.

The project manager from the Commission's Division of Ratepayer Advocates (DRA) was responsible for preparing the reports for the Bear Valley Electric District. However, since the same counsel represented Branch and DRA, there is no distinction made between Branch and DRA in this decision.

Evidentiary hearings were held in Los Angeles and San Francisco during the period September 21, 1988 to September 30, 1988. The proceeding was submitted upon the receipt of concurrent briefs on October 31, 1988.

Issues

Throughout these proceedings SoCalWater and Branch conferred regarding their respective test year estimates. As a result of these meetings SoCalWater stipulated to most of Branch's estimates, so only a few issues were litigated during the evidentiary hearings. There were two kinds of contested issues raised in the evidentiary hearings. The first kind applied to all districts and the second kind applied to specific districts.

The disputed items common to all districts were:

1. Rate of return

- a. Cost of future long-term debt issues.
 - b. Return on equity.
2. Treatment of general office expenditures for the following outside services
 - a. Recruiter fees.
 - b. Training expenses.
 - c. Internal Revenue Service (IRS) litigation expenses.
3. Treatment of tax on unbilled revenues.
4. Working cash allowance, specifically calculation of lead/lag days.
5. Tax on unbilled revenues.

The disputed items in relation to individual districts were:

6. Los Osos District - overpayment for the Calle Cordoniz reservior.
7. Bear Valley Electric District - exclusion of certain rate base items.
8. Metropolitan District - City of Bell Gardens' request for system improvements and financing arrangements.
9. Desert District - ratepayers' request for relief from high rates and poor service.

Tables 1 through 10 show a comparison of SoCalWater's and Branch's estimates of results of operations for 1989 and 1990 for the five districts under consideration for rate increase. The tables also show the adopted and authorized results of operations for 1989 and 1990.

The adopted quantities, tax calculations, and comparison of rates are included in Appendixes C, D, and E, respectively.

Table 1

Southern California Water Company
Barstow District
Summary of Earnings Reconciliation
1989
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif-</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$2,459.6	\$	\$2,459.6	\$2,459.6	\$2,779.8
<u>Operating Expenses</u>					
Purchased Power	770.6		770.6	770.6	770.6
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	1.4		1.4	1.4	1.4
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	347.4		347.4	347.4	347.4
Other O&M	218.3		218.3	218.3	218.3
Other A&G and Misc.	121.1		121.1	121.1	121.1
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	59.0		59.0	59.0	59.0
Payroll Taxes - District	26.3		26.3	26.3	26.3
Depreciation	198.8		198.8	198.8	198.8
General Office Allocation	120.9	3.3	117.6*	120.2	120.2
Uncollectible	8.2		8.2	8.2	9.3
Business License Tax	28.8		28.8	28.8	32.6
Subtotal	1,900.8	3.3	1,897.5	1,900.1	1,905.0
Net Before Taxes	558.8		562.1	559.5	874.8
Income Taxes	110.1	12.1	98.0**	97.0	223.6
Total Operating Expenses	2,010.9		1,995.5	1,997.1	2,128.6
Net Revenue	448.7		464.1	462.5	651.2
Rate Base	5,994.7	25.0	5,969.7***	5,969.7	5,969.7
Rate of Return	7.48%		7.77%	7.75%	10.91%

*, **, *** See page 20 for comments.

Table 2

Southern California Water Company
Barstow District
Summary of Earnings Reconciliation
1990
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$2,491.5	\$	\$2,491.5	\$2,491.5	\$2,979.0
<u>Operating Expenses</u>					
Purchased Power	779.0		779.0	779.0	779.0
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	6.6		6.6	6.6	6.6
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	364.5		364.5	364.5	364.5
Other O&M	237.2		237.2	237.2	237.2
Other A&G and Misc.	120.6		120.6	120.6	120.6
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	64.5		64.5	64.5	64.5
Payroll Taxes - District	27.9		27.9	27.9	27.9
Depreciation	223.9		223.9	223.9	223.9
General Office Allocation	130.0	3.9	126.1*	128.6	128.6
Uncollectible	8.3		8.3	8.3	9.9
Business License Tax	29.2		29.2	29.2	34.9
Subtotal	1,991.7	3.9	1,987.8	1,990.3	1,997.6
Net Before Taxes	499.8		503.7	501.2	981.4
Income Taxes	71.4	12.0	59.4**	58.4	251.1
Total Operating Expenses	2,063.1		2,047.2	2,049.3	2,249.3
Net Revenue	428.4		444.3	442.2	729.6
Rate Base	6,688.1	25.0	6,663.1***	6,663.1	6,663.1
Rate of Return	6.40%		6.67%	6.64%	10.95%

*, **, *** See page 20 for comments.

Table 3

Southern California Water Company
Desert District
Summary of Earnings Reconciliation
1989
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$1,397.4	\$	\$1,397.4	\$1,397.4	\$1,497.6
<u>Operating Expenses</u>					
Purchased Power	144.7		144.7	144.7	144.7
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	1.0		1.0	1.0	1.0
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	267.6		267.6	267.6	267.6
Other O&M	119.8		119.8	119.8	119.8
Other A&G and Misc.	83.3		83.3	83.3	83.3
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	15.2		15.2	15.2	15.2
Payroll Taxes - District	20.3		20.3	20.3	20.3
Depreciation	114.3		114.3	114.3	114.3
General Office Allocation	57.6	1.6	56.0*	57.2	57.2
Uncollectible	4.2		4.2	4.2	4.5
Business License Tax	<u>7.3</u>		<u>7.3</u>	<u>7.3</u>	<u>7.8</u>
Subtotal	835.3	1.6	833.7	834.9	835.7
Net Before Taxes	562.1		563.7	562.5	661.9
Income Taxes	175.7	10.8	164.9**	164.4	204.3
Total Operating Expenses	1,011.0		998.6	999.3	1,040.0
Net Revenue	386.4		398.8	398.1	457.6
Rate Base	4,199.0	4.7	4,194.3***	4,194.3	4,194.3
Rate of Return	9.20%		9.51%	9.49%	10.91%

*, **, *** See page 20 for comments.

Table 4

Southern California Water Company
Desert District
Summary of Earnings Reconciliation
1990
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$1,491.5	\$	\$1,491.5	\$1,491.5	\$1,672.6
<u>Operating Expenses</u>					
Purchased Power	153.5		153.5	153.5	153.5
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	1.2		1.2	1.2	1.2
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	280.7		280.7	280.7	280.7
Other O&M	137.3		137.3	137.3	137.3
Other A&G and Misc.	85.7		85.7	85.7	85.7
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	17.7		17.7	17.7	17.7
Payroll Taxes - District	21.5		21.5	21.5	21.5
Depreciation	136.5		136.5	136.5	136.5
General Office Allocation	61.8	1.8	60.0*	61.2	61.2
Uncollectible	4.5		4.5	4.5	5.0
Business License Tax	7.8		7.8	7.8	8.8
Subtotal	908.2	1.8	906.4	907.6	909.1
Net Before Taxes	583.3		585.1	583.9	763.5
Income Taxes	179.5	11.3	168.2**	167.7	239.8
Total Operating Expenses	1,087.7		1,074.6	1,075.3	1,148.9
Net Revenue	403.8		416.9	416.2	523.7
Rate Base	4,787.8	4.7	4,783.1***	4,783.1	4,783.1
Rate of Return	8.43%		8.72%	8.70%	10.95%

*, **, *** See page 20 for comments.

Table 5

Southern California Water Company
Los Osos District
Summary of Earnings Reconciliation
1989
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$ 709.2	\$	\$ 709.2	\$ 709.2	\$ 753.0
<u>Operating Expenses</u>					
Purchased Power	119.9		119.9	119.9	119.9
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	0.5		0.5	0.5	0.5
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	106.9		106.9	106.9	106.9
Other O&M	55.9		55.9	55.9	55.9
Other A&G and Misc.	39.0		39.0	39.0	39.0
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	19.7		19.7	19.7	19.7
Payroll Taxes - District	8.1		8.1	8.1	8.1
Depreciation	70.1		70.1	70.1	70.1
General Office Allocation	32.7	0.9	31.8*	32.6	32.6
Uncollectible	1.7		1.7	1.7	1.8
Business License Tax	0.0		0.0	0.0	0.0
Subtotal	454.5	0.9	453.6	454.4	454.5
Net Before Taxes	254.7		255.6	254.8	298.5
Income Taxes	69.0	5.0	64.0**	63.7	81.2
Total Operating Expenses	523.5		517.6	518.1	535.7
Net Revenue	185.7		191.6	191.1	217.3
Rate Base	1,993.4	1.6	1,991.8***	1,991.8	1,991.8
Rate of Return	9.32%		9.62%	9.60%	10.91%

*, **, *** See page 20 for comments.

Table 6

Southern California Water Company
Los Osos District
Summary of Earnings Reconciliation
1990
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$ 728.6	\$	\$ 728.6	\$ 728.6	\$ 813.8
<u>Operating Expenses</u>					
Purchased Power	122.6		122.6	122.6	122.6
Purchased Water	0.0		0.0	0.0	0.0
Purchased Chemical	0.5		0.5	0.5	0.5
Pump Tax	0.0		0.0	0.0	0.0
Payroll - District	111.3		111.3	111.3	111.3
Other O&M	61.4		61.4	61.4	61.4
Other A&G and Misc.	40.1		40.1	40.1	40.1
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	22.1		22.1	22.1	22.1
Payroll Taxes - District	8.5		8.5	8.5	8.5
Depreciation	79.9		79.9	79.9	79.9
General Office Allocation	35.7	1.7	34.0*	34.9	34.9
Uncollectible	1.7		1.7	1.7	1.9
Business License Tax	<u>0.0</u>	<u></u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	483.8	1.7	482.1	483.0	483.2
Net Before Taxes	244.8		246.5	245.6	330.6
Income Taxes	63.5	6.8	56.7**	56.3	90.4
Total Operating Expenses	547.3		538.8	539.3	573.6
Net Revenue	181.3		189.8	189.3	240.2
Rate Base	2,195.0	1.6	2,193.4***	2,193.4	2,193.4
Rate of Return	8.26%		8.65%	8.63%	10.95%

*, **, *** See page 20 for comments.

Table 7

Southern California Water Company
Metropolitan District
Summary of Earnings Reconciliation
1989
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$26,697.3	\$	\$26,697.3	\$26,697.3	\$27,226.3
<u>Operating Expenses</u>					
Purchased Power	1,250.8		1,250.8	1,250.8	1,250.8
Purchased Water	11,380.6		11,380.6	11,380.6	11,380.6
Purchased Chemical	48.6		48.6	48.6	48.6
Pump Tax	1,565.8		1,565.8	1,565.8	1,565.8
Payroll - District	1,995.4		1,995.4	1,995.4	1,995.4
Other O&M	1,341.1		1,341.1	1,341.1	1,341.1
Other A&G and Misc.	634.1		634.1	634.1	634.1
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	731.8		731.8	731.8	731.8
Payroll Taxes - District	151.1		151.1	151.1	151.1
Depreciation	1,173.1		1,173.1	1,173.1	1,173.1
General Office Allocation	984.3	27.1	957.2*	978.5	978.5
Uncollectible	126.8		126.8	126.8	129.3
Business License Tax	373.0		373.0	373.0	380.4
Subtotal	21,756.5	27.1	21,729.4	21,750.7	21,760.5
Net Before Taxes	4,940.8		4,967.9	4,946.6	5,465.8
Income Taxes	1,545.8	225.6	1,320.2**	1,311.7	1,520.1
Total Operating Expenses	23,302.3		23,049.6	23,062.4	23,280.6
Net Revenue	3,395.0		3,647.7	3,634.9	3,945.7
Rate Base	36,415.5	249.9	36,165.6***	36,165.6	36,165.5
Rate of Return	9.32%		10.09%	10.05%	10.91%

*, **, *** See page 20 for comments.

Table 8

Southern California Water Company
Metropolitan District
Summary of Earnings Reconciliation
1990
(Dollars in Thousands)

<u>At Present Rates</u>	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$26,702.4	\$	\$26,702.4	\$26,702.4	\$27,758.6
<u>Operating Expenses</u>					
Purchased Power	1,251.0		1,251.0	1,251.0	1,251.0
Purchased Water	11,363.0		11,363.0	11,363.0	11,363.0
Purchased Chemical	54.0		54.0	54.0	54.0
Pump Tax	1,565.8		1,565.8	1,565.8	1,565.8
Payroll - District	2,073.2		2,073.2	2,073.2	2,073.2
Other O&M	1,423.8		1,423.8	1,423.8	1,423.8
Other A&G and Misc.	656.2		656.2	656.2	656.2
Business License	0.0		0.0	0.0	0.0
Ad Valorem Taxes - District	765.3		765.3	765.3	765.3
Payroll Taxes - District	160.3		160.3	160.3	160.3
Depreciation	1,221.9		1,221.9	1,221.9	1,221.9
General Office Allocation	1,058.5	32.2	1,026.3*	1,047.2	1,047.2
Uncollectible	126.8		126.8	126.8	131.9
Business License Tax	373.0		373.0	373.0	387.8
Subtotal	22,092.8	32.2	22,060.6	22,081.6	22,101.4
Net Before Taxes	4,609.6		4,641.8	4,620.8	5,657.2
Income Taxes	1,408.3	234.4	1,173.9**	1,165.5	1,581.5
Total Operating Expenses	23,501.1		23,234.5	23,247.1	23,682.9
Net Revenue	3,201.3		3,467.9	3,455.3	4,075.7
Rate Base	37,471.6	249.9	37,221.7***	37,221.7	37,221.7
Rate of Return	8.54%		9.32%	9.28%	10.95%

*, **, *** See page 20 for comments.

Table 9

Southern California Water Company
Development of Summary of Earnings
Comparison between Staff & Utility
Test Year 1989 at Present Rates
Bear Valley Electric District
(Dollars in Thousands)

	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$ 8,716.6	\$	\$8,716.6	\$8,716.6	\$8,917.2
<u>Operating Expenses</u>					
Supply	5,411.9		5,411.9	5,411.9	5,411.9
Operation & Maint.	728.3		728.3	728.3	728.3
Admin. & General	527.0	11.4	515.6*	521.3	521.3
Uncollectible	62.0		62.0	62.0	63.4
Labor Escalation Amount	43.3		43.3	43.3	43.3
Nonlabor Escalation Amount	69.2	1.2	68.0	68.6	68.6
Subtotal	6,841.7	12.6	6,829.1	6,835.4	6,836.8
Depreciation	467.0	2.6	464.4	467.0	467.0
Taxes other than on Income	124.3	0.7	123.6	124.3	124.3
Franchise Requirements	111.1		111.1	111.1	113.7
CA Corporation Fran. Tax	59.7	8.6	51.1	49.2	67.5
Federal Income Tax	276.2	34.8	241.4**	233.9	294.6
Total Oper. Exp.	7,880.0	59.3	7,820.7	7,820.9	7,903.9
Net Operating Revenue	836.6	(59.3)	895.9	895.7	1,013.3
Rate Base	9,333.6	300.3	9,033.3***	9,287.9	9,287.9
Rate of Return	8.96%		9.92%	9.64%	10.91%

(Red Figure)

*, **, *** See page 20 for comments.

Table 10

Southern California Water Company
Development of Summary of Earnings
Comparison between Staff & Utility
Test Year 1990 at Present Rates
Bear Valley Electric District
(Dollars in Thousands)

	<u>SoCalWater</u>	<u>Dif.</u>	<u>Staff</u>	<u>Adopted at Present Rates</u>	<u>Adopted at Auth. Rates</u>
Operating Revenue	\$ 8,883.8	\$	\$8,883.8	\$8,883.8	\$9,170.4
<u>Operating Expenses</u>					
Supply	5,470.4		5,470.4	5,470.4	5,470.4
Operation & Maint.	733.0		733.0	733.0	733.0
Admin. & General	534.1	13.9	520.2*	525.9	525.9
Uncollectible	51.8		51.8	51.8	53.5
Labor Escalation Amount	71.8		71.8	71.8	71.8
Nonlabor Escalation Amount	<u>108.6</u>	<u>2.2</u>	<u>106.4</u>	<u>107.3</u>	<u>107.3</u>
Subtotal	6,969.7	16.2	6,953.5	6,960.1	6,961.8
Depreciation	504.0	5.5	498.5	504.0	504.0
Taxes other than on Income	132.0	0.6	131.4	132.0	132.0
Franchise Requirements	113.4		113.4	113.4	117.1
CA Corporation Fran. Tax	52.5	8.2	44.3	42.3	68.5
Federal Income Tax	<u>272.8</u>	<u>32.7</u>	<u>240.1**</u>	<u>231.6</u>	<u>318.3</u>
Total Oper. Exp.	8,044.4	63.2	7,981.2	7,983.4	8,101.7
Net Operating Revenue	839.4	(63.2)	902.6	900.4	1,068.8
Rate Base	9,809.5	301.5	9,508.0***	9,761.3	9,761.3
Rate of Return	8.56%		9.49%	9.22%	10.95%

(Red Figures)

*, **, *** See page 20 for comments.

Footnotes for Tables 1 - 10

Issues:

- * This difference is due to SoCalWater's update of Outside Services in the General Office, and the allocation of that additional expense to this district.
- ** This difference is due to two factors. One is the revenue lag day difference in the computation of allowance for working cash. SoCalWater used a lag day figure of 54.85, while Branch used a figure of 50 days. This difference gives rise to a difference in working cash allowance, which is also a function of differing expense (including tax) estimates.

In addition, Branch has recommended disallowance of certain plant additions in 1988 for the Big Bear Electric District.
- *** Some of the differences in income taxes flow from different expense estimates as well as from interest relating to differences in rate base. In addition, SoCalWater includes one-fourth of the tax on unbilled revenue booked in 1987 in each test year. This affects both state and federal income taxes.

Rate of Return

The capital structure of a firm generally consists of three components: long-term debt, preferred stock, and common equity. The ratio in which the three components are included is known as the capital ratio. Rate of return is a composite value of capital costs expressed as the total weighted cost of long-term debt, preferred stock, and common equity. The determination of long-term debt and preferred stock is based primarily on recorded costs; however, estimates must be made for the costs associated with future debt or preferred stock financing. Determination of the cost of common equity is more difficult because additional factors, such as business and financial risks, investor expectations, ratepayer interest, and capital ratios.

SoCalWater agrees with Branch's proposed capital structure, cost of current long-term debt, and preferred stock costs. The only dispute involves the appropriate costs to associate with the future long-term debt issues and the return on common equity (ROE).

The interest on long-term debt (through the issuance of utility bonds or securities) paid by a utility depends on the rating it receives from financial rating agencies such as Standard & Poors and Moody's. Most utilities that issue bonds in large amounts, usually in excess of \$40-50 million, seek ratings from rating agencies. A bond rating is a prerequisite to the marketability of bonds of this magnitude. The rating of utility debt issues by such agencies is based on various financial criteria such as ROE, capital ratio, dividend payout ratio, dividend yield, market-to-book ratio, pretax interest coverage etc. The rating received by a utility is an indicator of the risk involved in investing in the utility's bonds, which correspondingly impacts the cost of equity. SoCalWater has secured long-term debts in much smaller amounts and consequently did not see the need to get a financial rating from such rating agencies.

Since the rating SoCalWater would receive from a rating agency, if it proposes to seek one, would have a bearing on the interest it would have to pay on its long-term debt, there was a considerable discussion as to whether SoCalWater would receive an "A" or "AA" rating from the rating agencies.

Long-term Debt

In its original report on the cost of money, SoCalWater estimated an interest rate of 10.50% for future long-term debt issues. SoCalWater's revised report on cost of money in September 1988 estimated the cost of new debt issues to be 11%. Branch contends that SoCalWater's cost of new debt will remain at 10.50%.

In estimating SoCalWater's long-term debt costs, Branch relied on long-range forecasts for 30-year maturity "AA" and "A" rated utility bonds with 5-year call protection shown in Table 11. According to Branch, SoCalWater's new debt issues are going to be issued for 15-year maturity and, therefore, will have a lower yield than debt issues with a 30-year maturity by approximately 25 basis points. Therefore, Branch adjusted the 10.76% yield for "AA" rated bonds in Table 11 by 25 basis points to arrive at its recommended 10.50% yield for SoCalWater's future debt issues. Branch contends that SoCalWater meets all the criteria for "AA" bond rating.

Table 11

Southern California Water Company

Trends in Interest Rates and Utility Bond Yields

<u>Period</u>	<u>Utility Bond Yields</u>		<u>United States Government</u>		
	<u>AA</u>	<u>A</u>	<u>3-Month Bills</u>	<u>3-5 Years Notes</u>	<u>30-Year Bonds</u>
1981 Avg	15.30%	15.95%	14.28%	14.06%	13.44%
1982 Avg	14.79	15.86	10.61	12.83	12.76
1983 Avg	12.83	13.66	8.61	10.60	11.18
1984 Avg	13.66	14.03	9.52	12.10	12.39
1985 Avg	12.06	12.47	7.48	9.95	10.79
1986 Avg	9.30	9.58	5.97	7.28	7.80
1987 Avg	9.77	10.10	5.82	7.83	8.59
1988 Jan	10.52	10.76	5.90	8.03	8.83
Feb	9.91	10.10	5.69	7.52	8.43
Mar	9.92	10.09	5.69	7.65	8.63
Apr	10.29	10.54	5.92	7.98	8.95
May	10.53	10.81	6.27	8.36	9.23
Jun	10.52	10.79	6.50	8.33	9.00
Jul	10.76	11.04	6.97	8.49	9.14

Table 12

SOUTHERN CALIFORNIA WATER COMPANY

Selected Financial Indicators

Comparable Group of Related California and
Regional Water Public Utility Companies

Company	S&P Bond Rating	Percent Return: on Book Value	Operating: Total Revenue	Percent: Water Revenue	Common: Equity Ratio	Dividend: Payout Ratio	Dividend: Yield	Market: To Book Ratio	Pretax: Interest Coverage
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
American Water Works	A-	13.2X	10.6X	\$483.4	98X	35X	38X	4.4X	110X
4/ Calif. Water Service	AA+	16.2	13.3	115.1	100	54	58	5.7	160
Connecticut Water	A	13.3	10.6	26.7	100	39	81	7.6	137
Consumers Water	N/A	12.8	11.0	82.0	74	37	65	5.3	161
E'Town Corporation	A+	14.4	11.1	68.3	100	35	71	7.0	143
The Hydraulic Co.	A+	13.8	11.1	70.0	81	53	67	5.2	164
IWC Resources Corp.	AA	14.4	11.0	49.9	100	45	78	7.5	198
Middlesex Water Co.	N/A	12.0	9.1	22.6	100	44	86	6.7	148
Philadelphia Water	A	9.9	8.9	107.3	70	37	87	6.4	134
4/ SJW Corporation	N/A	13.1	11.2	66.8	100	60	56	5.9	121
United Water Res.	A	15.3	10.5	127.7	93	39	66	4.3	222
California Co.'s		14.7X	12.3X	\$91.0	100X	57X	57X	5.8X	141X
Regional Co.'s		13.2	10.4	115.3	91	40	71	6.0	157
AVERAGE		13.5	10.8	110.9	92	43	68	6.0	154
So. Calif. Water	N/A	13.6	11.3	79.3	89	51	72	7.3	130

1/ Income Statement Figures are for the Latest 12 Months as Available

2/ Based on Per Share Value

3/ For 1987

4/ California Companies

SOURCE: C.A. Turner Utility Report - August, 1988

SoCalWater believes that it would receive an "A" rating for its bonds. According to SoCalWater, the rating agencies consider many other criteria in addition to the financial indicators included in Table 12. SoCalWater contends that even if one were to rely solely on the criteria used in Table 12, one would still not conclude that SoCalWater would receive an "AA" rating on its bonds. SoCalWater points out that The Hydraulic Co., which is shown in Table 12 to receive "A+" bond rating, scores better than SoCalWater on the important criteria considered in Table 12. SoCalWater points out that California Water Service, the only "AA" rated utility in Table 12, far exceeds SoCalWater on the important criteria.

SoCalWater states that its contention that it is more likely to be rated an "A" company is confirmed by the advice it received from E.F. Hutton & Company, Inc. in late 1986.

With regard to the question of appropriate cost of long-term debt for "A" rated utilities, SoCalWater relied on Blue Chip Financial Forecasts shown in Table 13 and 14. Table 13 shows that the Blue Chip Financial forecasts consenses for the first three quarters for 1989 to be 10.9% for "A" rated utilities. SoCalWater contends that these more current estimates show higher projected interest rates than the forecasts upon which Branch relied. According to SoCalWater, the noticeable increase in actual interest rates over the same period, shown in Table 14, supports this analysis.

Table 13
Southern California Water Company
Comparison of March 1, 1988
Blue Chip Forecasts to
September 1, 1988 Forecast

	Prime	"A" Utility Bond	3 Mo. T-Bill	1 Yr. T-Note	5 Yr. T-Note	10 Yr. T-Note	30 Yr. T-Bond
March 1, 1988 Consensus for 1989	8.7%	10.3%	6.4%	7.2%	8.3%	8.8%	9.0%
September 1, 1988 Consensus for 1989*	<u>10.2</u>	<u>10.2</u>	<u>7.4</u>	<u>8.2</u>	<u>9.1</u>	<u>9.5</u>	<u>9.6</u>
Increase	1.5%	0.6%	1.0%	1.0%	0.8%	0.7%	0.6%

* September 1 consensus only goes through third quarter of 1989. To obtain average for 1989, fourth quarter assumed to decrease 0.1% from third quarter consensus. All figures rounded.

Source: Blue Chip Financial Forecasts March 1, 1988 and September 1, 1988 editions.

Table 14
Southern California Water Company
Trend in Monthly Yields and Interest Rates

	Prime	"A" Utility Bond	3 Mo. T-Bill	1 Yr. T-Note	5 Yr. T-Note	10 Yr. T-Note	30 Yr. T-Bond
December 1987(1)	8.8%	10.4%	6.0%	7.2%	8.5%	9.0%	9.2%
January 1988	8.8	10.1	6.1	7.1	8.3	8.8	8.9
February	8.6	9.8	5.9	6.6	7.7	8.2	8.4
March	8.5	9.9	5.8	6.7	7.7	8.3	8.5
April	8.5	10.2	6.0	7.0	8.2	8.7	8.9
May	8.7	10.6	6.4	7.3	8.5	9.0	9.2
June	9.0	10.4	6.7	7.5	8.5	8.9	9.0
July	9.2	10.4	6.9	7.7	8.6	9.0	9.1
August	9.8	10.5	7.3	8.2	9.0	9.3	9.4

(1) Month that Commission issued its order in 1987 rate case proceedings.

Source: Blue Chip Financial Forecasts "Actual For: Month xxxx" column.

Discussion

In the absence of an actual rating by rating agencies it is hard to determine with any degree of certainty whether SoCalWater's long-term debt bonds would be rated "A" or "AA". Even if one were to rely solely on the financial indicators used in Table 12 to make that determination, one could rate SoCalWater "A" or "AA" depending on which rating would best serve one's purpose. Therefore, rather than attempt to make a determination of which rating SoCalWater would possibly receive, we will consider other evidence in making a determination of the appropriate interest rate for SoCalWater's future long-term debt.

Both SoCalWater and Branch have reasons for choosing their particular financial forecaster. SoCalWater has relied on Blue Chip Financial Forecasts shown in Tables 13 and 14. We note that according to Table 13 the September 1, 1988 consensus for 1989 interest rate for "A" rated bonds with 30-year maturity is expected to be 10.9%. We also note that in Table 14 the actual interest rate as August 1988 for "A" rated bonds with 30-year maturity as 10.5%. In making its estimate of the long-term debt interest rate, Branch has made an adjustment of 25 basis points to interest rates for bonds with 30-year maturity to account for the 15-year maturity of SoCalWater's new debt issues.

We recognize the imperfections of forecasts. After carefully weighing both forecasts and giving due consideration to Branch's proposed adjustment for 15-year maturity of SoCalWater's long-term debt, we believe that Branch's proposed rate of 10.5% is the best estimate of SoCalWater's long-term debt costs. Therefore, we will adopt a cost of 10.5% for future bond financing in this proceeding. The adopted cost of 10.5% for future long-term debt would result in the weighted average cost of long-term debt to be 10%, 10.06%, and 10.13% for 1989, 1990, and 1991, respectively (see Table 15).

Return on Equity

This is the most difficult component of the rate of return equation. SoCalWater is requesting a constant ROE of 13.5% for the years 1989, 1990, and 1991. Branch recommends a range of 11.75% to 12.25% as the proper return for the three years. Both SoCalWater and Branch support their recommendations by the use of two market based financial models, the discounted cash flow model and risk premium analysis model. These financial models provide a range for ROE. SoCalWater chose to select approximately the mid-point of the range suggested by its model whereas Branch chose to recommend a range for reasonable ROE. Each party claims that its models are superior. In addition, both Branch and SoCalWater compare their proposals for ROE on the relative risk shared by water utility and electric utility shareholders.

In concluding that water utilities were more risky than electric utilities, SoCalWater's Caveney testified that water utilities face increased product risks because of the expanded number of contaminants required to be tested for and dealt with in the near future by the Federal Environmental Protection Agency (EPA). Caveney also testified that California water utilities are faced with water shortage because of the reduction of the allocation of Colorado River water to California, the impending drought and the loss of other water sources due to political reasons.

According to SoCalWater, in addition to the problems faced by other major California water utilities, SoCalWater's risks are increased due to the massive construction plan it has undertaken which requires high yearly expenditures. SoCalWater believes that its need for additional capital exceeds that of any other comparable water utility. Therefore, SoCalWater maintains that it needs a sufficient ROE to raise the needed capital.

SoCalWater points out that another specific risk facing the utility arises from a dispute with the IRS over the treatment of investment tax credits and tax depreciation on advances. While

SoCalWater believes that its position will prevail, it is concerned about the cost of litigating the matter and the possible adverse effect on its level of perceived risk if SoCalWater does not prevail in such litigation.

Branch contends that the Commission and bond rating agencies have recognized that water utilities are less risky when compared to energy and communications utilities. Branch asserts that in rating water utilities bond rating agencies apply more relaxed financial standards, such as higher debt leverages and lower pretax interest coverages than other utility companies. In support of its contention Branch provides the following chart used by Standard & Poors for rating utilities.

S&P Benchmark Definitions

<u>Bond Rating</u>	<u>Pretax Interest Coverage</u>			<u>Debt Leverage</u>		
	<u>Water</u>	<u>Telecom.</u>	<u>Energy</u>	<u>Water</u>	<u>Telecom.</u>	<u>Energy</u>
AAA	Above 3.75x	-	Above 4.5x	Below 48%	-	Below 41%
AA	3.0-4.25	Above 4.5x	3.5-5.0	46-54	Below 42%	39-46
A	2.0-3.25	3.5-5.5	2.5-4.0	52-60	40-52	44-52
BBB	Below 2.5	2.7-4.0	1.5-3.0	58	Above 50-62	50-58

Branch asserts that in addition to the relaxed standards by bond rating agencies, water utilities, including SoCalWater, do not face the same business risks as energy and telecommunications utilities for the following reasons:

- a. There is no real competition in the water distribution business.
- b. Water is an indispensable product. There is no substitute.

- c. Water is a renewable resource. Water storage facilities are replenished through rain and snow.
- d. Water utilities are not as capital intensive. Construction programs are much smaller and are financed to a large degree by advances for construction and contributions in aid of construction.
- e. Water utilities do not capitalize interest on construction projects. Construction work in progress is included in rate base which results in enhanced earnings and better cash flow.
- f. Water utilities are allowed offset increases in highly variable costs such as purchased water and power by advice letter filings concurrently with such increases.

Discussion

Both Branch and SoCalWater relied on financial models in arriving at their recommendations. SoCalWater and Branch agree that the results of various financial models are good starting points as well as analytical guides for establishing ROE and that the actual determination of a reasonable ROE should be tempered by judgment and examination of particular circumstances surrounding the utility.

Because these models are used only to establish a range for ROE, we do not repeat the detailed descriptions of each model contained in this record. Additionally, both parties have advanced arguments in support of their analyses and a criticism of the input assumptions used by the other party. These arguments are not addressed in this decision, given our assessment that they do not alter the model results. These models provide a reasonable range from which to choose, and we will use them as a rough guidepost in selecting SoCalWater's ROE. Nonetheless, in the final analysis, it is the application of judgment, not the precision of these models, which is the key to our decision.

In applying this judgment we assess the arguments presented by SoCalWater that it faces increased risk during the period covered by this general rate proceeding. SoCalWater asserts that water utilities face a greater volatility of earnings than electric utilities and thus are riskier than electric utilities.

We acknowledge that water utilities may in future years experience some increased risk due to more stringent water quality requirements by the EPA. We also recognize that SoCalWater's risk may be affected by the need to borrow money for its capital improvements and the litigation involving the IRS. But we doubt that these specific risks make water utilities riskier than energy and telecommunications utilities. We also question whether these kinds of risk justify an increase in the ROE. For the reasons cited by Branch, we find that water utilities do not face the same overall risks as energy and telecommunications utilities.

The mid-point of Branch-proposed ROE of 12% would result in pretax interest coverage of 3.18x in 1989, 3.17x in 1990, and 3.16x in 1991 (see Table 15). This coverage with SoCalWater's debt leverage of 47.5% would easily qualify it for "AA" rating according to the benchmark definition used by Standard & Poors.

While we recognize that interest coverage and debt leverage are not the only indicators used by rating agencies when assigning bond rating, an ROE of 12% would certainly improve SoCalWater's probability of receiving an "AA" rating. After reviewing all the evidence regarding SoCalWater's risk and its need for capital improvements we believe that an ROE of 12% is just and reasonable for SoCalWater for the years 1989, 1990, and 1991, and will enable SoCalWater to raise the necessary capital to finance its construction plan in these years. This adopted ROE produces overall rates of return of 10.91%, 10.95%, and 10.99% for 1989, 1990, and 1991, respectively. Columns a, b, and c of Table 15 show the adopted capital ratio, cost factors, and weighted cost (rate of return) for 1989, 1990, and 1991, respectively.

Table 15

SOUTHERN CALIFORNIA WATER COMPANY

Recommended Rates of Return at 12.00% Return on Equity
With Tax Effect and Pretax Interest Coverages
1989 through 1991

Component	Capital Ratios	Cost Factors	Weighted Cost	1/ Multiplier	Net to Gross	Rate of Return With Tax Effect
	(a)	(b)	(c)	(d)	(e)	
<u>Test Year 1989</u>						
Long-Term Debt	47.50%	10.00%	4.75%	X 1.0	=	4.75%
Preferred Stock	1.50	4.45	0.07	X 1.671	=	0.12
Common Equity	<u>51.00</u>	12.00	<u>6.12</u>	X 1.671	=	<u>10.23</u>
Total	100.00%		10.91%			15.10
Pretax Interest Coverage						3.18x =====
<u>Test Year 1990</u>						
Long-Term Debt	47.50%	10.06%	4.78%	X 1.0	=	4.78%
Preferred Stock	1.50	4.44	0.07	X 1.671	=	0.12
Common Equity	<u>51.00</u>	12.00	<u>6.12</u>	X 1.671	=	<u>10.23</u>
Total	100.00%		10.95%			15.15
Pretax Interest Coverage						3.17x =====
<u>Attrition Year 1991</u>						
Long-Term Debt	47.50%	10.13%	4.81%	X 1.0	=	4.81%
Preferred Stock	1.50	4.44	0.07	X 1.671	=	0.12
Common Equity	<u>51.00</u>	12.00	<u>6.12</u>	X 1.671	=	<u>10.23</u>
Total	100.00%		10.99%			15.18
Pretax Interest Coverage						3.16x =====

1/ Based on Federal Tax Rate of 34% and State Tax Rate of 9.3%

2/ Mid-point of recommendation

General Office Expenses

SoCalWater's general office expenses are incurred at its headquarters in Los Angeles. Expenses in this category are incurred by the company as a whole and allocated to the various operating districts. Typically these expenses include salaries and expenses of offices and general office employees, general office supplies and expenses, fees for legal and other outside services, regulatory commission expenses, insurance, pension provision, group life insurance and hospitalization cost, trustee fees, transfer agent fees, depreciation, ad valorem taxes, repairs on common utility plant, and other corporate costs. SoCalWater's general office also performs the billing of water and electric customers. The general office expenses are allocated to the districts by the Commission-approved four-factor allocation method.

State and federal taxes on income are considered to be direct district expenses and are shown only in the district reports. However, certain income tax deductions applicable to SoCalWater as a whole are allocated to the districts for the purpose of computing income taxes for rate setting for each district. These deductions include interest deductions, tax depreciation, and amortization of deferred investment tax credit.

The rate base items of utility plant, depreciation reserve, deferred income taxes, unamortized investment tax credit, materials and supplies, and working cash allowance are also allocated to the districts by the four-factor method.

Only two items, outside service expenses and working cash allowance, are in contention between SoCalWater and Branch. These are discussed below.

Outside Service Expenses

The expenses in this category include payments made by SoCalWater for legal services, recruitment fees, and training auditing services.

SoCalWater had originally estimated outside service expenses to be \$334,200 and \$350,300 for test years 1989 and 1990, respectively. SoCalWater's estimate of expenses for outside services was developed by escalating the recorded 1987 expenses for inflation. Branch estimated outside service expenses for the two test years by averaging actual expense for the years 1983 through 1986 and then adding \$17,000 to that average for each of the test years. The \$17,000 amount was added for additional legal fees to be incurred by SoCalWater for its pending litigation with the IRS which was cited earlier. According to Branch, SoCalWater experienced unusually high expenses for outside services in 1987 for recruiting fees, accounting fees, and legal expenses for litigation with the IRS.

During the hearing, SoCalWater introduced Exhibit 37 which revised its estimates for outside services expenses to \$277,900 for 1989 and \$293,900 for 1990. SoCalWater developed its revised estimates by adding to Branch's estimates allowances for additional recruiting fees, management training, and audit and legal support. The revised estimates were developed as follows:

Summary of Revised
General Office Outside Expense Estimates

	<u>1989</u>	<u>1990</u>
Branch estimate	\$192,900	\$192,900
<u>SoCalWater's additional allowance</u>		
<u>Recruitment fees</u>		
Amortized 1987 recruitment fees	18,000	18,000
Community relations executive	-	16,000
Division manager - Big Bear	<u>16,000</u>	<u>-</u>
Subtotal	34,000	34,000
<u>Training</u>		
Customer service	15,000	15,000
Management/supervisor	25,000	25,000
Company compensation plan	5,000	5,000
Performance Evaluation	5,000	5,000
1986 tax law change effects	<u>1,000</u>	<u>-</u>
Subtotal	51,000	50,000
<u>Audit and legal support*</u>		
Audit and legal support for IRS suit	<u>-</u>	<u>17,000</u>
Subtotal	<u>-</u>	<u>17,000</u>
Total additional allowances	85,000	101,000
SoCalWater's revised estimates for general office expenses	277,900	293,900

* CPUC staff has allowed an additional \$17,000 in 1989 and 1990.

SoCalWater maintains that in D.86-10-025 it was ordered to develop a plan for augmentation of the company's maintenance program and for the improvement of its public relations. SoCalWater contends that its planned expansion in recruiting and training are appropriate responses to the Commission's order, and therefore, appropriate ratemaking expenses.

Branch contends that since it did not have adequate time to review SoCalWater's revised estimate for outside services contained in Exhibit 37, it should not be adopted. SoCalWater maintains that information regarding the estimates contained in Exhibit 37 was provided to Branch well in advance of introduction of the exhibit.

Discussion

SoCalWater realizes that its original estimate was excessive and developed from the recorded data for an unusual year. In its revised estimate, SoCalWater has augmented Branch's estimates with allowance for additional expenses. In order to arrive at the appropriate level of expenses for outside services we need to examine only the additional expenses.

SoCalWater is seeking to recover recruiting expenses in 1987 through their amortization by including \$18,000 in the test year estimates for outside services. These are not extraordinary expenses and according to Commission practice, recovery of previously incurred expenses in future test years is allowed only if specific provision has been made in a prior proceeding to accrue such expenses for future amortization. Since no provision was made for the accrual of the recruiting expenses incurred in 1987 and since they appear to be ordinary operating expenses, we will not allow SoCalWater's request for the \$18,000 in the test year estimate.

SoCalWater has provided adequate justification for the expected expenses for recruitment fees in 1989 and 1990 through the

testimony of its witness Romines. Romines justified the need to fill the positions as well as the reasonableness of the fees for recruiting.

SoCalWater's witness explained that the training program is being proposed in response to the Commission's order in D.86-10-025. The program will include the training of customer services representatives in order to improve customer relations as ordered in the decision. Therefore, we will allow the inclusion of expenses associated with the training program in test year estimates.

SoCalWater has also included an allowance of \$17,000 for audit and legal fees for test year 1990. The only explanation SoCalWater provides for these additional expenses is "Recently we have become aware of the specific costs associated with this area. The 1989 figures are the same as the staffs' estimate. However, the 1990 figure is estimated to be \$34,000 in fees paid to our auditors and attorneys for representation in this matter."

We do not believe that the justification provided by SoCalWater is adequate to find the amount reasonable for inclusion in test year 1990 estimate for outside service expenses.

Therefore, we will adopt the following expenses for outside services:

	<u>1989</u>	<u>1990</u>
Branch estimate	\$192,900	\$192,900
Recruiting fees	16,000	16,000
Training	<u>51,000</u>	<u>50,000</u>
	259,900	258,900

Working Cash

SoCalWater's general office rate base is allocated to each district by the four-factor method. The common rate base includes common utility plant, depreciation reserve, deferred income taxes, unamortized investment credit, materials and supplies, and working cash allowance. SoCalWater and Branch agree

on all items of general rate base except the working cash allowance.

The working cash allowance is a component of rate base and generally is a small percentage thereof. The reason for inclusion of the working cash allowance in the rate base is to compensate investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances.

The procedure by which the working cash allowance is developed is to determine the operational cash requirement and then subtract from the operational cash requirement such amounts as are available to the utility in forms of tax accruals or other funds not supplied by the investors. The operational requirement is made up of working funds in the form of cash, special deposits, and other current assets which the investor is required to supply to the utility in order for it to perform its day-to-day operational requirements efficiently and economically. On the other hand, the amount subtracted from the operational cash requirement represents a source of interest-free working funds available to the utility due to the fact that revenues are collected prior to the payment of employees' wages, taxes, and the utility's creditors. The net amount then represents the allowance for funds supplied by the investors.

Since the primary purpose of the working cash allowance is to compensate the investor for funds needed to meet the operating expenses in advance of the receipt of offsetting revenues, an important element in the development of working cash allowance is the passage of time between incurring of expenses and receipt of revenues. The passage of time from when the expenses are incurred until the utility receives offsetting revenues is known as revenue lag.

The revenue lag is determined by the "lead-lag" study detailed in the Commission's Standard Practice U-16. Standard Practice U-16 requires utilities to conduct periodic lead-lag studies. SoCalWater last conducted a lead-lag study in 1968. According to that study, SoCalWater's revenue lag was 54.85 days.

The only disagreement between SoCalWater and Branch is over the appropriate number of revenue lag days to be used for calculating the working cash allowance. While SoCalWater uses the revenue lag of 54.85 days developed by the 1968 lead-lag study, Branch uses a revenue lag of 50 days. Branch developed its revenue lag of 50 days by estimating the various stages of the revenue collection process. Branch witness Radpour testified that in estimating the number of days involved in each stage of the revenue collection process, he made an allowance for the hand-held meter reading devices which SoCalWater will have in operation at all of its districts in 1989. Radpour calculated SoCalWater's revenue lag to be 47 days. He adjusted that figure of 47 days to 50 days to make an allowance for any possible errors in his estimates. Radpour testified that he discussed the issue with Joseph Young of SoCalWater and they agreed to the use of 50 days for revenue lag.

SoCalWater contends that Radpour made his analysis without any input from SoCalWater or other water utilities. SoCalWater believes that the use of hand-held devices will not reduce the revenue lag by such a large margin. According to SoCalWater, other utilities that have used hand-held meter reading devices for varying periods of time have experienced savings of only 1 to 1 1/2 days.

SoCalWater proposes to conduct a new lead-lag study once the hand-held meter reading devices are in use for the entire system. SoCalWater requests that until the completion of the lead-lag study the Commission should continue to use a revenue lag of 54.85 days as it has done in all previous SoCalWater's rate applications.

Discussion

An accurate determination of revenue lag days can only be made after SoCalWater completes a new lead-lag study that includes use of hand-held meter reading devices. In the interim we can either use a revenue lag developed by a 20-year old lead-lag study as SoCalWater suggests or we can use the Branch-developed estimate of revenue lag days.

We believe that Radpour's study, though not as precise as a lead-lag study, is based on realistic estimates of days involved in the completion of the revenue collection process. Radpour has made an allowance for any possible errors in his estimate for increasing the computed 47 days to 50 days. SoCalWater made no such study to develop a new revenue lag estimate, but relied on a 20-year old lead-lag study which makes no allowances for changes in revenue collection techniques. SoCalWater has clearly failed to rebut Radpour's computation, other than characterize it as arbitrary. SoCalWater has failed to meet its burden of proof to establish that the revenue lag has remained at 54.85 days for the past 20 years. Therefore, for the purpose of this proceeding, we will adopt a revenue lag of 50 days for the calculation of working cash allowance.

Tax on Unbilled Revenues

The Tax Reform Act of 1986 (TRA 86) required utilities to calculate and pay their federal income tax (FIT) by including unbilled revenues in their taxable income. Before the enactment of TRA 86, the taxable income for a given year was based on the amounts of revenues billed to the customers. TRA 86 requires utilities to include, in their income, the "unbilled revenues" for services provided during the taxable year. According to TRA 86, income from services provided during the taxable year but after the final meter reading or billing date must be estimated if it cannot be determined.

The provisions of TRA 86 apply to taxable years beginning after December 31, 1986. TRA 86 included a phase-in mechanism which required an income adjustment to be made in the first taxable year following December 31, 1986 to prevent income from unbilled revenues from being included in taxable income more than once. Utilities were allowed to pay taxes on unbilled revenues over a four-year period beginning in 1987. To match expenses and revenues, expenses which relate to revenues taken into taxable income as service is performed can be deducted in the same period that the revenue is taxable.

SoCalWater's unbilled revenue for 1986 was approximately \$4.8 million (companywide basis). In accordance with the provisions of TRA 86, SoCalWater has elected to include one quarter of this \$4.8 million revenue in its taxable income for each of the years 1987 through 1990. This treatment of unbilled revenues will increase SoCalWater's ratemaking FIT for the 1987 through 1990. Branch opposes this additional FIT for ratemaking purposes. ✓

According to Branch, before the enactment of TRA 86, the utilities have always enjoyed a ratemaking tax benefit because in setting rates the Commission has always assumed that the taxable income on the revenues generated for providing service for the entire year (January 1 through December 31) includes revenues for services not billed during the taxable year. Branch contends that TRA 86 will require the utilities to pay the same taxes to the IRS which were adopted for ratemaking purposes. Therefore, Branch believes that allowing SoCalWater to recover taxes on \$4.8 million of unbilled revenues will result in recovery of taxes that were already allowed in rates.

Discussion

The Commission, in setting rates, has always based a utility's test year revenues on sales that are expected to occur during the entire test year (January 1 through December 31) i.e. the ratemaking taxes have always included the taxes on unbilled

revenues. TRA 86 has merely synchronized the actual taxes paid by the utility with the ratemaking taxes. Therefore, SoCalWater has been collecting in rates the taxes on the unbilled revenues, in any given year, although the actual taxes it paid to the IRS were only on the actually billed revenues, which were almost always lower than the revenues based on the actual sales during the year which included the unbilled revenues. If we were to allow SoCalWater to amortize, over four years, the additional 1986 taxes on \$4.8 million of unbilled revenues, the ratepayers will be charged twice for a portion of 1986 taxes. Therefore, we will not allow SoCalWater to amortize the taxes on \$4.8 million of unbilled revenues.

Los Osos District - Construction
Of Calle Cordoniz Reservoir

D.83-04-069, dated April 20, 1983, approved the construction and inclusion in rate base of a reservoir in the Los Osos District referred to by SoCalWater as the Calle Cordoniz reservoir. Since that decision SoCalWater has been unable to construct the Calle Cordoniz reservoir because of the denial of approval by the County of San Luis Obispo.

The rates adopted in D.83-04-069 were based on the inclusion of the Calle Cordoniz reservoir in rate base. Since the reservoir is not in the rate base, the ratepayers have been overcharged. Branch recommends that the overcharges be refunded to the ratepayers. A similar recommendation was made by Shauna Sullivan appearing on her own behalf and for the San Luis Obispo County Community Service Area 9 Advisory Board.

SoCalWater contends that its inability to construct the reservoir results from foot dragging by the bureaucracy of the County of San Luis Obispo. According to SoCalWater, it has been making continuous good-faith efforts to construct the reservoir. Therefore, SoCalWater believes that it should not be required to refund the portion of rates associated with the Calle Cordoniz reservoir. According to SoCalWater, the most equitable approach

would be to wait until the reservoir is constructed and then determine if equity requires any refund. Branch argues that regardless of whether or not SoCalWater has been diligent in its efforts to construct the reservoir, the ratepayers should not be charged for any plant which is not in service.

Although SoCalWater is opposed to the refunding of the overcharges related to the Calle Cordoniz reservoir, in 1987 it filed Advice Letter (AL) 759-W proposing an adjustment to rates for the overcharge. AL 759-W was filed at the insistence of the Branch.

In addition to the question of the appropriateness of the refund, SoCalWater and Branch disagree about the amount to be refunded. In AL 759-W SoCalWater proposed to refund, through a rate reduction, \$71,663 between June 1987 and December 31, 1988. According to Branch's analysis, the total amount of overcharge by the end of 1988 will be \$380,600 for a net overcharge, excluding the refund in AL 759-W, of \$308,900. SoCalWater conceded that the amount of refund in AL 759-W was in error and provided the recomputation of the refund in Exhibit 42. SoCalWater's revised calculations represent an overcharge of \$200,600 by the end of 1988 for net remaining overcharge of \$128,900.

The approximate \$180,000 difference between Branch's and SoCalWater's estimate of unrefunded overcharge depends mainly on whether rates set in attrition year 1985 provide for the inclusion of the cost of the reservoir for the full year in the rate base. SoCalWater contends that the reservoir was given only 50% weighting for 1985 in D.83-04-69, while Branch believes that the reservoir was given full 100% weighting for 1985. Both agree that in D.83-04-69 the reservoir was given only 50% weighting for 1984.

In addition to the issue of the appropriate weighting for 1985, SoCalWater also contends that Branch's calculations do not include the effects of items such as amortized investment tax

credit, deferred income taxes, and effect of interest for the computation of federal and state income taxes.

Discussion

Branch contends that SoCalWater should refund an additional \$308,900 for overcollection of revenue associated with the Calle Cordoniz reservoir. SoCalWater, by filing AL 759-W, has consented to refund the overcharges for the reservoir. SoCalWater has also conceded that the amount of refund in AL 759-W was in error and that according to SoCalWater's calculation, the overcharge for the reservoir was \$200,600 by the end of 1988 for net remaining overcharge of \$128,900.

Branch's disagreement regarding the amount of refund stems from perceived weighting of the Calle Cordoniz reservoir in the attrition year 1985 in rate base. The reservoir was to come in service during test year 1984 and, therefore, the reservoir would be given a 50% weighting in the 1984 rate base. This treatment is consistent with the ratemaking procedure used for water utilities. Since the reservoir was to come in service during 1984, it was expected to be in service for the entire year of 1985. The ratemaking procedure for water utilities allows a 100% weighting in rate base for plant items expected to be in service for the entire year.

The basis for our refund order here is SoCalWater's consent to a refund and its concession that the amount of the refund previously ordered is incorrect in the amount of \$128,900. Therefore, we will limit the amount of the additional refund to the amount that SoCalWater concedes is correct. However, we do find considerable merit in Branch's contention that SoCalWater is still understating the amount of its prior overcollection by failing to include a full year's revenue requirement for the year 1985.

Since the rates in these proceedings are expected to be in effect in January 1989, the overcharges are computed through December 31, 1988. We believe that the refund should be completed

over this rate case cycle for the Los Osos District i.e. from 1989 through 1991. By refunding the overcharges during this rate case cycle, the next rate case cycle beginning in 1992 will not have any leftover ratemaking impact of the Calle Cordoniz reservoir.

Interest on the Overcharges

Branch recommends that the overcharges of the Calle Cordoniz reservoir should be refunded with interest at the rate of 12%. SoCalWater contends that even if the Commission decides that a refund is justified, it would be inappropriate to charge interest on the refund because, unlike the energy utilities, SoCalWater is not allowed to earn an interest on its balancing account. SoCalWater argues that any interest charged would be a penalty against it in a situation where there has been no showing of wrong doing. According to SoCalWater, the 12% rate of interest recommended by Branch is especially unfair because it is well above the 7% interest rate that the Commission allows on balancing accounts for its Bear Valley electric operations.

Discussion

SoCalWater is correct in pointing out that no interest is allowed on water utility balancing accounts. However, water utility balancing accounts are established on the premise that the overcollections and undercollections will offset each other in the long term. Under this situation the ratepayers and the utility share equal risks. In the case of the Calle Cordoniz reservoir, SoCalWater has had the use of the additional revenues for over a period of approximately four years with no possibility of the ratepayers getting an offsetting benefit. Therefore, an interest in this special situation is justified.

As to the question of the rate of interest to be charged, we will, as we have done in the past, apply the interest rate used for the energy cost adjustment clause (ECAC) balancing accounts. Since a 7% interest rate is allowed for SoCalWater's electric

operation balancing accounts, we will apply the same rate to the overcharges for the Calle Cordoniz reservoir.

Bear Valley Electric District Plant Addition

There is disagreement between SoCalWater and Branch regarding the plant additions for 1988. SoCalWater's and Branch's estimates of gross plant additions in 1988 for the Bear Valley Electric District are \$1,366,300 and \$1,110,300, respectively. The \$256,000 difference in estimated plant additions stems from changes made by SoCalWater to the original 1988 capital budget included with the application.

In its revised budget SoCalWater deleted certain projects and supplanted them with other projects that SoCalWater believed to be more important. The changes to the budget were provided to Branch in mid-July. Branch accepted the deletions from the original budget but did not accept the substituted projects.

The plant additions in question result from SoCalWater's agreement with SKI Corporation, one of SoCalWater's major customers, which required a set of new projects to provide adequate service to SKI Corporation. The projects recommended for disallowance are required to improve the reliability of the Bear Valley system and to improve the voltage in the upper Moonridge area.

Branch contends that SoCalWater did not provide the necessary information regarding the revision to the capital budget until the day before its draft report was due. According to Branch, as a result of this delay it accepted the SoCalWater- proposed cancellations of projects but did not accept the inclusion of any new projects. Branch maintains that this late submission did not allow it sufficient time to review the additional items.

SoCalWater's witness Thompson testified at length regarding these projects. Thompson explained the need for each project and noted that several of these projects are either under construction or already completed.

Discussion

While we agree with Branch that it is the applicant's responsibility to provide timely information regarding its budgets, we do not believe that projects needed to provide adequate service should be excluded from rate base for that reason alone. Branch asserts that it received the explanation for the revisions to SoCalWater's budget in mid-July, the day before its draft report was due. On that basis we can understand Branch's position to exclude the projects from its report. However, the Branch witness for rate base did not testify until September 29. He had sufficient time to formulate his opinion regarding the reasonableness of the projects before he testified. He did not do so.

Especially where the applicant fails to provide timely budget information, it is SoCalWater's responsibility to fully justify the inclusion of the project in rate base. The testimony provided by SoCalWater's Thompson does provide necessary details for the inclusion of the projects. Thompson has also testified that most of the plant additions in question are either constructed or are under construction. We believe SoCalWater has provided the necessary justification. Therefore, we will adopt SoCalWater's estimate of plant additions of \$1,366,300 for the Bear Valley Electric District for 1988.

Metropolitan District

The City of Bell Gardens (Bell Gardens) is served by the Metropolitan District of SoCalWater. Bell Gardens protested the proposed rate increase because it was concerned about needed system improvements within the city and expressed dissatisfaction with its negotiations on "install and convey" contracts with SoCalWater.

During the hearing Bell Gardens, SoCalWater and Branch reached a stipulation regarding the resolution of Bell Gardens' problem. Parties outlined the terms of the stipulation and requested that the Commission adopt it.

The stipulation was filed on November 14, 1988. The dispositive provisions of the stipulation are:

- "1. The City of Bell Gardens and the Southern California Water Company shall negotiate in good faith to determine what system improvements are necessary within the City boundaries and to formulate a program for financing the system improvements. Southern California Water Company shall, no later than June 30, 1989, file a written report with the Public Utilities Commission on the status of the negotiations.
- "2. The Public Utilities Commission staff shall assist said negotiations and monitor them to ensure that they are carried out in good faith. In the event the Public Utilities Commission finds that Southern California Water Company's conduct has been imprudent in not negotiating in good faith with the City of Bell Gardens, any step rate increases for the years 1990 and 1991 which are approved in this proceeding shall be stayed within the Bell Gardens service area."

Discussion

We will adopt the stipulation. We encourage parties to carry out the terms in good faith.

Service Problems in the Desert District

At the PPHs in Morongo Valley and Apple Valley for the Morongo Valley service area and the Victorville service area of the Desert District, numerous customers expressed their dissatisfaction with SoCalWater. There were approximately 25 speakers at each meeting. They complained about excessively high rates and poor service. The attendance at those meetings was perhaps four times as large as the number of persons who signed up to speak. In addition, petitions were presented at each of the PPHs with hundreds more signatures expressing the same dissatisfaction. It is clear that there is a high level of discontent in the Desert District.

In addition to the petitions presented at the PPHs, over 700 customers of the Victorville service area sent a letter to Governor Deukmejian expressing dissatisfaction with the handling of SoCalWater's past and current rate applications.

The Branch report on the results of operation for the Desert District understates the reported service problems in the both service areas of the district. The report also does not contain any recommendations regarding remedies to the service problems. However, after hearing the complaints at the PPHs, SoCalWater and Branch had several meetings to attempt to explore possibilities for providing relief to the customers. Although SoCalWater did not agree with the proposals made by Branch, both parties agreed that no significant relief could be provided to the customers in the context of this proceeding.

Branch recommends that the Commission order an investigation into ways to relieve the problems of the Desert District. Branch recommends that the investigation consider the following remedies:

1. Institution of connection fees.
2. Institution of availability charges to be applied to empty lots for fire protection.
3. Condemnation and acquisition of the water systems by local community service districts.
4. Using the gain on sale of the La Quinta service area of the Desert District for improving the Morongo Valley and Victorville service area. The La Quinta service area was the third service area of the Desert District. The La Quinta service area was condemned by the Coachella Valley Water District and final judgment on the sale was issued by the court in Riverside County in December 1987. The gain of sale over book value was approximately \$900,000.

SoCalWater opposes Branch's recommendation to institute an investigation on grounds that Branch was vague on what option should be investigated.

Discussion

It is evident from the testimony provided at the PPHs and the evidentiary hearings that the Desert District has high rates and serious service problems. The primary cause of high rates in the Desert District is that those districts are sparsely populated. Fewer customers bear the cost of building and maintaining the plant needed to provide the service. Unlike energy and communications utilities, water utility districts are treated as self-contained systems for rate setting purposes. Therefore, customers of small water districts frequently have high rates for their service compared to customers of larger districts.

In addition to the high rates, public witnesses stated that both service areas of the Desert District have serious problems with the quality of service. The service problems include quality of water as well as poor response to customer-reported complaints such as leaks in the water mains. Service problems were reported by almost every member of the public who spoke at the PPHs. These problems are summarized in the testimony of Kathy Davis on behalf of Citizens for Better Water.

We believe that SoCalWater needs to take prompt action to address the service problems in the district. We will require SoCalWater to submit a report outlining its short-term and long-term plan to improve the water systems in both service areas of the Desert District. The report should also address the suggestions made by Branch to provide relief from the high cost of service. SoCalWater should submit this report within 120 days of the effective date of this order. Branch should prepare a response to SoCalWater's report within 90 days of its issuance. Upon completion of the report, SoCalWater should notify each customer in the Desert District, through bill inserts, that the report will be

made available to individual customers upon request. We will schedule further hearings to consider the proposals contained in SoCalWater's report. Since the proposals made in SoCalWater's report will have an impact on the Desert District revenue requirements, we will defer the rate revision for the Desert District (A.88-05-021) until the hearings are completed and the Commission issues a decision. The proceeding in A.88-05-021 will remain open to receive further evidence regarding the service problems in the Desert District.

Turning to the question of the impact on SoCalWater's earnings resulting from deferring the rate increase for the Desert District, we note that by its own estimation SoCalWater, at current rates, will achieve rates of return of 9.2% and 8.43% with net revenues of \$386,400 and 403,800 (Table 3) for 1989 and 1990, respectively. It is clear that even if the rate increase for the Desert District is deferred, SoCalWater will continue to earn a positive rate of return.

Rate Design - Water

SoCalWater and Branch both agree that the established rates should follow the guidelines set forth in D.86-05-064 in I.84-11-041. The guidelines to be followed in setting rates herein are as follows:

1. Service charges shall be set to allow utilities to recover up to 50% of their fixed costs.
2. Lifeline rates shall be phased out.
3. There may be multiple commodity blocks, with the number of commodity blocks to be limited to no more than three blocks.
4. Seasonal rates may be implemented in resort areas.

These guidelines should be implemented in such a manner that a customer's bill will not be increased by more than twice the overall percentage increase.

The service charges in the Metropolitan, Los Osos, and Desert Districts produce revenues equal to approximately 50% of the fixed costs. Most of the increase for the Barstow District has been applied uniformly to service charges to recover approximately 50% of the fixed costs.

The limited flat rate service will be discontinued in the Metropolitan District.

Rate Design - Electric

SoCalWater has stipulated to Branch-proposed rate design which takes into account the effects of Senate Bill (SB) 987. SB 987 amends Public Utilities (PU) Code § 739 and directly affects how residential baseline and nonbaseline rates are to be set for gas and electric utilities.

PU Code § 739, before it was amended, required the Commission to set baseline rates at a range of 15% to 25% below the system average rate. SB 987 deletes this requirement and allows the Commission greater flexibility in establishing the rates and quantities for baseline usage. SB 987 requires the Commission to avoid excessive rate increases for residential customers and to establish an appropriate gradual differential between rates for the respective blocks of usage.

To accomplish these objectives, Branch recommends that the baseline quantities be set at 50% of average aggregate consumption for basic (including water-heating) customers in the summer and winter seasons and for all-electric customers in the summer. The baseline allowances for all-electric customers in winter be set at 60% of average aggregate consumption.

Branch determined the baseline allowances for test year 1989 by using monthly billing frequency analyses of domestic billing from January 1987 to April 1988. Branch recommends the

following baseline quantities for single-family dwellings for test years 1989 and 1990:

<u>Baseline Quantity</u>	<u>Summer kWh/Month</u>	<u>Winter kWh/Month</u>
Basic	320	320
All-Electric	560	1,200

Based on similar analysis, Branch recommends a baseline allowance of 120 kWh/month customer for domestic multifamily residences.

Branch's recommendations for baseline allowances are for permanent residents only. Branch maintains that 99% of the nonpermanent residents are California residents who own second homes in Bear Valley service territory, and therefore, do not qualify for baseline allowance.

Turning to the question of rates for baseline quantities, Branch recommends that the baseline rate be set at 70% of the system average rate. According to Branch, this rate will avoid a large bill increase as well as simplify the implementation of the baseline structure.

In addition to its recommendations regarding residential customers, Branch has made several other recommendations regarding purchased power balancing account amortization in Exhibit 22 and rate design in Exhibit 23. SoCalWater has agreed to comply with all of Branch's recommendation. Branch's recommendations are contained in Appendix F. There are no disagreements between SoCalWater and Branch regarding revenue allocation between customer classes and rate design for other customer classes. ✓

Discussion

Branch's proposed rate design for residential customers is in compliance with the requirements of SB 987. The Branch-proposed rate design for other classes of customers is in compliance with the Commission guideline. Therefore, we will adopt the rate design proposed in Exhibit 23.

In addition to modifying the baseline program, SB 987 requires the Commission to establish a program of assistance to low-income electric and gas customers. The Commission will address this matter in the second phase of I.88-07-009.

Attrition

Rates for 1991 are calculated using an operational and financial attrition allowance. The financial attrition of 0.04% results from the expected change in capital ratio and the weighted cost of long-term debt due to acquisition of new debt issues. Operational attrition is the result of the additional cost of providing service including operating expenses, depreciation, taxes, and return on investment increasing at a faster rate than revenues at a given rate level. The following table shows the attrition allowance for each of the five districts:

<u>District</u>	<u>Operational</u>	<u>Financial</u>	<u>Total</u>
Barstow	1.40%	0.04%	1.44%
Desert	0.88	0.04	0.92
Los Osos	1.05	0.04	1.09
Metropolitan	0.79	0.04	0.83
Bear Valley Electric	0.42	0.04	0.46

Balancing Account

In November 1988 SoCalWater provided the recorded October 1988 balances in its balancing account set up pursuant to PU Code § 792.5. The balance as of October 31, 1988 for the Los Osos District was \$89,200 undercollection or approximately 12% of the gross annual revenue.

In accordance with established Commission policy on balancing accounts, recorded balances exceeding 5% of gross annual revenues should be amortized over a period of time greater than 12 months. Branch recommends amortization over a three-year period. This coincides with the rate case cycle. We will adopt Branch's recommendation. Accordingly, the appropriate surcharge has been included in Appendix A-2.

Comments on the Proposed Decision

SoCalWater has filed comments on the ALJ's proposed decision. Based on our review, we believe the following modifications and/or corrections to the decision should be made:

Tax on Unbilled Revenues ✓

The proposed decision states that:

"SoCalWater's FIT for the unbilled revenues for 1986 was approximately \$4.8 million (companywide basis). In accordance with the provisions of TRA 86, SoCalWater has elected to pay this additional FIT evenly over the four-year period 1987 through 1990. In order to recover the \$4.8 million, SoCalWater has added \$1.2 million (4.8÷4 to each of its test year FIT estimates."

This statement is not correct; \$4.8 million is the amount of unbilled revenues, not the amount of the federal income tax on the unbilled revenues. SoCalWater proposes to include one quarter of this \$4.8 million in its taxable income in each of the years 1987 through 1990. Accordingly, we have modified the language on pages 41 and 42 to reflect this correction. ✓

Service Problems in the Desert District

The proposed decision defers the rate increase in the Desert District pending reports from both SoCalWater and Branch and further hearings regarding the service problems in the district. SoCalWater opposes the delay in the rate increase for the Desert District. According to SoCalWater, such a delay would leave in place rates in the Desert District that would produce a rate of return less than 10.91% (based on 12% return on equity) which has been found to be just and reasonable for 1989 in this proceeding. SoCalWater contends that rates that do not yield a reasonable return to a utility are confiscatory and violative of the Fourteenth Amendment to the Constitution.

SoCalWater correctly points out that the decision finds a 12% return on equity reasonable for the three test years, which

would correspond to a rate of return of 10.91% for 1989. However, it should be noted that ROE is a function of risk and a district with service problems has a different risk factor than a district without service problems. Therefore, the 12% ROE found reasonable for SoCalWater's other four districts (Barstow, Los Osos, Metropolitan, and Bear Valley Electric) would only be applicable to the Desert District after its service problems have corrected. Accordingly, we will defer the rate increase for the Desert District until further Commission action proposed in this order.

Branch Recommendations Regarding
the Bear Valley Electric District

Branch has made certain recommendations regarding purchased power balancing account amortization and rate design in Exhibits 22 and 23 respectively. SoCalWater has agreed to comply with Branch's recommendations. Although the proposed decision mentions SoCalWater's agreement to comply with Branch's recommendations, it does not order SoCalWater to do so. We believe that SoCalWater should be ordered to comply with Branch's recommendation. Accordingly, we have modified the language on page 53 and added the necessary ordering paragraph.

Findings of Fact

1. On May 11, 1988, SoCalWater filed applications requesting rate increases for water service in its Barstow, Desert, Los Osos, and Metropolitan Districts and for electric rate increase in its Bear Valley Electric District.

2. SoCalWater requests rates which would produce rates of return on its rate base of 11.43% in 1989, 11.49% in 1990, and 11.52% in 1991 with a constant ROE of 13.5% in each of the three years.

3. Branch recommends a range of 11.75% to 12.25% as the proper ROE for SoCalWater for the three years.

4. SoCalWater revised its estimate of the cost of future long-term debts from 10.50% to 11%.

5. Branch contends that the cost of future long-term debt will be 10.5%.

6. The estimates for the cost of future long-term debt are based on long-range forecasts for 30-year maturity "AA" and "A" rated bonds.

7. SoCalWater proposes to issue bonds with 15-year maturity, which yield lower interest rates.

8. In making its estimate for the cost of SoCalWater long-term debts with a 15-year maturity, Branch made an allowance of 25 basis points to the long-range forecasts for interest rates for bonds with a 30-year maturity. SoCalWater made no such adjustment.

9. Branch's estimated cost of 10.50% for SoCalWater's future long-term debt is most likely to occur.

10. Water utilities do not face the same business risks as energy and communications utilities.

11. Bond rating agencies apply more relaxed standards to water utilities than energy and communication utilities.

12. An ROE 12% would provide a pretax interest coverage of 3.18x in 1989, 3.17x in 1990, and 3.16x in 1991.

13. With the interest coverage of over 3.0x, SoCalWater is most likely to qualify for an "AA" rating for its bonds.

14. An ROE of 12% will adequately cover SoCalWater's risk and its need for additional capital.

15. An ROE of 12% will produce overall rates of return of 10.91%, 10.95%, and 10.99% for 1989, 1990, and 1991, respectively.

16. SoCalWater estimates the expenses for the general office outside services to be \$277,900 and 293,900 for 1989 and 1990, respectively.

17. Branch estimates for the general office outside service expenses are \$192,900 for 1989 and 1990.

18. In preparing its estimate for expenses for outside services, SoCalWater has added to Branch's estimate the additional expenses for 1987 recruitment fees, training, and legal fees.

19. The Commission does not allow recovery of past expenses in future test years unless specific provision has been made to accrue them for future amortization.

20. No provision was made for the accrual of the recruiting expenses incurred during 1987 and they appear to be ordinary operating expenses which are provided for in test year ratemaking.

21. SoCalWater has justified the need for the additional allowance for training.

22. SoCalWater has not justified the additional expense for legal fees.

23. Disallowance of 1987 recruitment fees and the additional legal fees would result in SoCalWater's outside service expenses estimates of \$259,900 and \$258,900 for 1989 and 1990, respectively.

24. In calculating the working cash allowance SoCalWater and Branch have used revenue lag days of 54.85 and 50, respectively.

25. SoCalWater uses the revenue lag of 54.85 days developed by a lead-lag study conducted in 1968 which did not take into consideration the improvements in revenue collection process.

26. Branch developed its estimate of revenue lag by estimating the various stages of revenue collection process.

27. In developing its revenue lag estimate, Branch took into consideration improvements in revenue collection process.

28. TRA 86 required utilities calculate and pay their FIT by including unbilled revenues in their taxable income.

29. SoCalWater's unbilled revenue for 1986 was approximately \$4.8 million.

30. SoCalWater has included the amortized portion of the unbilled revenues in its taxable income for each of the test years in this proceeding.

31. SoCalWater's ratemaking taxes included an allowance for taxes on unbilled revenues.

32. Allowing SoCalWater to recover the additional taxes on \$4.8 million of unbilled revenues would result in the ratepayers being charged twice for the same tax expense.

33. D.83-04-069 adopted rates which were based on the inclusion of the Calle Cordoniz reservoir in the Los Osos District rate base.

34. The Calle Cordoniz reservoir is not in service at this time.

35. Ratepayers have been overcharged for rates associated with the Calle Cordoniz reservoir.

36. SoCalWater has consented to refund the overcharges.

37. SoCalWater's estimate of overcharges is \$200,600 through December 31, 1988.

38. SoCalWater has refunded \$71,663 of the overcharges associated with the Calle Cordoniz reservoir.

39. The net overcharges for the Calle Cordoniz reservoir are \$128,900.

40. The refunds for overcharges associated with the Calle Cordoniz reservoir will be easier to track if they are refunded over this rate case cycle.

41. Branch recommends that the overcharges be refunded with a 12% interest.

42. SoCalWater opposes any interest on the overcharges because there is no interest allowed on water utility balancing accounts.

43. In water utility balancing accounts the risks of overcollections and undercollections are shared by the utility and the ratepayers.

44. The overcollection for Calle Cordoniz reservoir has allowed SoCalWater the use of additional funds with no offsetting benefits to the ratepayers.

45. SoCalWater is allowed an interest rate of 7% for its ECAC balancing account for the Bear Valley Electric District.

46. The Commission's practice has allowed the use of the ECAC balancing account interest rates for other balancing accounts.

47. Branch recommends the disallowance of \$256,000 of plant additions from the 1988 SoCalWater's estimated plant additions of \$1,366,300 for the Bear Valley Electric District.

48. The information in support of SoCalWater's disputed plant additions was provided only one day before its draft report was due.

49. Branch witness had adequate time to review the information regarding the proposed plant addition before he testified.

50. SoCalWater has provided adequate justification in support of the plant additions in contention.

51. The two service areas of the Desert District have service problems as well as high rates.

52. SoCalWater has not taken the necessary steps to address the service problems.

53. There is an immediate need to address the service problems in the Desert District.

54. The steps needed to address the service problems in the Desert District may have an impact on the district's revenue requirements.

55. SoCalWater will continue to have a positive net revenue and rate of return in 1989 and 1990 for the Desert District at present rates.

56. Bell Gardens protested the proposed increase because it was concerned about needed system improvements within the city.

57. Bell Gardens, SoCalWater, and Branch filed a stipulation regarding the resolution of Bell Gardens' problem.

58. The stipulation requires Bell Gardens and SoCalWater to negotiate in good faith to develop program for implementing the system improvements. According to the stipulation, the step increases for 1990 and 1991 within the Bell Gardens' service area

are contingent upon SoCalWater's good faith effort in negotiating with Bell Gardens.

59. Bell Gardens, SoCalWater, and Branch request that the Commission adopt the stipulation.

60. Branch-proposed rate design for water as well as electric service is consistent with the Commission policy.

61. SoCalWater has stipulated to Branch-proposed rate design. ✓

Conclusions of Law

1. A cost of 10.50% for SoCalWater's future long-term debt is reasonable and should be adopted.

2. An ROE of 12% is just and reasonable for SoCalWater for 1989, 1990, and 1991.

3. The estimates for the general office outside service expenses of \$259,900 and \$258,900 for 1989 and 1990 are reasonable and should be adopted.

4. The working cash allowance should be computed with a revenue lag of 50 days.

5. SoCalWater should not be allowed to recover the additional taxes on \$4.8 million of unbilled revenues. ✓

6. SoCalWater should refund the balance of overcharges of \$128,900 associated with Calle Cordoniz reservoir over this rate case cycle.

7. An interest rate of 7% should be applied to the overcharges.

8. SoCalWater's estimate of \$1,366,300 for 1988 plant additions should be adopted.

9. Further evidentiary hearings should be held to address the problems of service and high rates in the Desert District and the rate revision for the district should be deferred until the hearings are completed and the Commission issues a decision.

10. The stipulation filed by Bell Gardens, SoCalWater, and Branch should be adopted.

11. The Branch-proposed rate design should be adopted.

12. The applications should be granted to the extent provided by the following order.

13. Because of SoCalWater's immediate need for rate relief, this order should be made effective today.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company (SoCalWater) is authorized to file revised schedules for its Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts attached to this decision as Appendix A. This filing shall comply with General Order (GO) 96. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1989, SoCalWater is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases for 1990 included in Appendix B, or to file a proportionate lesser increase for those rates in Appendix B for Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts, respectively, in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1989, exceeds the later of (a) the rate of return found reasonable for SoCalWater during the corresponding period in the then most recent rate decision or (b) 10.91%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the Commission Advisory and Compliance Division (CACD) to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with this decision. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 30 days

after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1990, SoCalWater is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases for 1991 included in Appendix B, or to file a proportionate lesser increase for those rates in Appendix B for Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts, respectively, in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1990, exceeds the later of (a) the rate of return found reasonable for SoCalWater during the corresponding period in the then most recent decision or (b) 10.95%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with this decision. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 30 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

4. Within 120 days from the effective date of this order, SoCalWater shall file a report including short-term and long-term plans for improving service in the Desert District. The report shall also address the proposal made by the Water Utilities Branch (Branch) to provide relief from high rates in the district.

5. Branch shall review SoCalWater's report on the Desert District and file its comments 90 days after the report is made available.

6. SoCalWater shall notify each customer, through bill inserts, that the report on the Desert District will be available upon request.

7. Further hearing on the Desert District problems will be held after SoCalWater's report and Branch's response are made available.

8. The rate revision for the Desert District shall be deferred until further Commission order following the hearing on the Desert District problems.

9. SoCalWater shall comply with Branch's recommendations contained in Appendix F.

10. The proceedings in A.88-05-019, A.88-05-023, A.88-05-024, and A.88-05-026 are closed. The proceeding in A.88-05-021 remains open for further evidence.

This order is effective today.

Dated JAN 27 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANDAN
Commissioners

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

[Signature]
Victor Weisberg, Executive Director
DB

APPENDIX A-1

Southern California Water Company
Barstow District

Schedule No. BA-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

Per Meter*
Per Month

Quantity Rates:

First 10,000 cu.ft., per 100 cu.ft.	\$0.500	(I)
Over 10,000 cu.ft., per 100 cu.ft.	0.409	(I)

Service Charge:

For 5/8 x 3/4-inch meter	\$ 6.35	(I)
For 3/4-inch meter	7.20	|
For 1-inch meter	8.50	
For 1 1/2-inch meter	10.80	
For 2-inch meter	20.00	
For 3-inch meter	26.00	
For 4-inch meter	46.00	
For 6-inch meter	74.00	
For 8-inch meter	102.00	
For 10-inch meter	187.00	(I)

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

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

(END OF APPENDIX A-1)

APPENDIX B-1

Southern California Water Company
Barstow 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 Date	
-----	-----
1-1-90	1-1-91
-----	-----

SCHEDULE BA-1

Service charge:

For 5/8x 3/4-inch meter	\$ 0.40	\$ 0.40
For 3/4-inch meter	0.50	0.50
For 1-inch meter	0.60	0.60
For 1 1/2-inch meter	0.90	0.90
For 2-inch meter	1.00	1.00
For 3-inch meter	2.00	2.00
For 4-inch meter	2.00	2.00
For 6-inch meter	4.00	4.00
For 8-inch meter	5.00	5.00
For 10-inch meter	9.00	9.00

Quantity Rates:

First 10,000 cu.ft., per 100 cu.ft.....	0.028	0.028
Over 10,000 cu.ft., per 100 cu.ft.....	0.024	0.024

(END OF APPENDIX B-1)

APPENDIX C-1
Page 1

Southern California Water Company
Barstow District

ADOPTED QUANTITIES

Name of Company: Southern California Water Company

District: Barstow

1. Net-to-Gross Multiplier: 1.6960
2. Federal Tax Rate: 34%
3. State Tax Rate: 9.3%
4. Local Franchise Tax Rate: 1.172%
5. Uncollectibles Rate: 0.333%

<u>Offsetable Items</u>	<u>Test Years</u>	
	1989 ----	1990 ----
6. <u>Purchased Power</u>		
A. Ccf/KWh- Electric Pump Electric Boosters	0.814	0.814
B. KWh (Total)	9,054,078	9,159,381
C. Average Cost/KWh	\$ 0.08711	\$ 0.08706
D. Total Cost of Power	\$ 770,600	\$ 779,000
7. Ad Valorem Taxes	\$ 59,000	\$ 64,500

APPENDIX C-1

Page 2

Southern California Water Company
Barstow DistrictADOPTED QUANTITIES8. Number of Services - Meter Size

	1989	1990
	----	----
5/8 x 3/4	7,165	7,265
3/4	-	-
1	731	756
1 1/2	63	63
2	260	265
3	20	20
4	11	11
6	9	9
8	1	1
10	-	-
	-----	-----
Total	8,260	8,390

9. Metered Water Sales
Range Ccf

0 - 100	2,637,602	2,678,506
Over 100	1,793,498	1,804,094
	-----	-----
Total	4,431,100	4,482,600

APPENDIX C-1

Page 3

Southern California Water Company
Barstow DistrictADOPTED QUANTITIES

10. Number of Services:

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Use-Ccf/vr</u>	
	1989	1990	1989	1990	1989	1990
Commercial-Metered	8,171	8,301	3,235.7	3,287.2	396.0	396.0
Industrial	9	9	101.5	101.5	11,275.0	11,275.0
Public Authority	78	78	494.0	494.0	6,333.0	6,333.0
Contract	1	1	597.4	597.4	597,460	597,460
Other	1	1	2.5	2.5	2,486.6	2,486.6
Subtotal	8,260	8,390	4,431.1	4,482.6		
Private Fire Protect.	41	41				
	-----	-----				
Total	8,301	8,431				
Water Loss: 10.2%			503.1	508.8		
Total Water Produced (KCcf)			4,934.2	4,991.4		
Pumped Water (KCcf)			4,934.2	4,991.4		
Purchased Water (KCcf)			0.0	0.0		

(END OF APPENDIX C-1)

APPENDIX D-1

Southern California Water Company
Barstow District

Income Tax Calculations

	1989	1990
	(Thousands of Dollars)	
Total Revenues	\$ 2,779.8	\$ 2,979.0
Purchased Power	770.6	779.0
Purchased Water	0.0	0.0
Purchased Chemical	1.4	6.6
Pump Tax	0.0	0.0
Payroll	347.4	364.5
Other O&M	218.3	237.2
Other A&G	121.1	120.6
Business License	0.0	0.0
Ad Valorem Taxes	59.0	64.5
Payroll Taxes	26.3	27.9
Depreciation	198.8	223.9
General Office Alloc.	120.2	128.6
Uncollectible	9.3	9.9
Business License Tax	32.6	34.9
Subtotal	1,905.0	1,997.6
Interest	305.4	345.0
Total Deductions	2,210.4	2,342.6
State Tax Deprec.	383.5	431.4
State Tax @ 9.3%	35.2	39.2
Federal Tax Deprec.	(13.7)	(20.3)
Federal Tax @ 34%	188.4	211.9
Total Income Tax	223.6	251.1

(END OF APPENDIX D-1)

APPENDIX E-1

Southern California Water Company
Barstow District

Comparison of typical bills for residential metered customers of various usage level and average usage level at present and authorized rates for the year 1989.

General Metered Service

(5/8 x 3/4-inch meters)

:	:	:	:
: Monthly Usage	: At Present	: At Authorized	: Percent
:	: Rates	: Rates	: Increase

(Cubic Feet)			
300	\$ 6.65	7.85	18.0 %
500	7.56	8.85	17.1
1,000	9.85	11.35	15.2
2,000	14.32	16.35	14.2
3,000 (Average)	18.83	21.35	13.4
4,000	23.34	26.35	12.9
6,000	32.36	36.35	12.3
10,000	50.40	56.35	11.8

(END OF APPENDIX E-1)

APPENDIX A-2

Southern California Water Company
Los Osos District

Schedule No. LO-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Unincorporated areas south of the city of San Luis Obispo in the vicinity of Los Osos, San Luis Obispo County.

RATESPer Meter
Per Month

Service Charges:

For 5/8 x 3/4-inch meter	\$ 8.15	(I)
For 3/4-inch meter	9.10	
For 1-inch meter	12.70	
For 1 1/2-inch meter	18.00	
For 2-inch meter	23.00	
For 3-inch meter	40.00	
For 4-inch meter	56.00	
For 6-inch meter	92.00	
For 8-inch meter	109.00	
For 10-inch meter	130.00	(I)

Quantity Rates:

For all water delivered, per 100 cu.ft. 0.789 (I)

Special Condition

Due to the undercollection in the Balancing Account, an amount of \$0.05 per Ccf is to be added to the quantity rates as shown above for thirty six months from the effective date of the decision to amortize the undercollectin.

Due to the overcollection associated with the Calle Cordoniz reservoir, an amount of \$0.105 per Ccf is to be reduced from the quantity rates as shown above for thirty-six months from the effective date of the decision to amortize the overcollection. ✓

(END OF APPENDIX A-2)

APPENDIX B-2

Southern California Water Company
Los Osos 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 Date	
-----	-----
1-1-90	1-1-91
-----	-----

SCHEDULE LO-1

Service charge

For 5/8 x 3/4-inch meter	\$ 0.45	\$ 0.45
For 3/4-inch meter	0.50	0.50
For 1-inch meter	0.70	0.70
For 1 1/2-inch meter	1.00	1.00
For 2-inch meter	1.20	1.20
For 3-inch meter	2.00	2.00
For 4-inch meter	3.00	3.00
For 6-inch meter	5.00	5.00
For 8-inch meter	6.00	6.00
For 10-inch meter	7.00	7.00

Quantity Rates:

For all water delivered, per 100 cu.ft.	0.041	0.041
---	-------	-------

(END OF APPENDIX B-2)

APPENDIX C-2

Page 1

Southern California Water Company
Los Osos District

ADOPTED QUANTITIES

Name of Company: Southern California Water Company

District: Los Osos

1. Net-to-Gross Multiplier: 1.6745
2. Federal Tax Rate: 34%
3. State Tax Rate: 9.3%
4. Local Franchise Tax Rate: 0.000%
5. Uncollectibles Rate: 0.237%

Items -----	Test Years -----	
	1989 ----	1990 ----
6. <u>Purchased Power</u>		
A. Kwh/Kccf - Electric Power	0.614	0.614
B. Kwh (total)	1,183,735	1,215,395
C. Average Cost/Kwh (PG&E)	0.10084	0.10038
D. Dates Rates Effective	6/1/88	6/1/88
E. Total Cost of Power	\$ 119,970	\$ 122,620
7. Ad Valorem Taxes	\$ 19,700	\$ 22,100

APPENDIX C-2

Page 2

Southern California Water Company
Los Osos DistrictADOPTED QUANTITIES8. Number of Services - Meter Size

	1989	1990
	----	----
5/8 x 3/4	2,123	2,181
3/4	389	400
1	243	252
1 1/2	10	10
2	23	23
3	1	1
4	0	0
6	1	1
8	0	0
10	0	0
	-----	-----
Total	2,790	2,868

9. Metered Water Sales-Ccf

Range Ccf		
0--300	90,479	92,996
Over 300	485,021	498,104
	-----	-----
Total	575,500	591,100

APPENDIX C-2
Page 3

Southern California Water Company
Los Osos District

ADOPTED QUANTITIES

10. Number of Services:

	No. of Services		Usage-KCcf		Avg.Use-Ccf/yr.	
	1989	1990	1989	1990	1989	1990
Commercial-Mete'd	2,785	2,863	560.1	575.7	201.1	201.1
Industrial	0	0	0.0	0.0	0.0	0.0
Public Authority	4	4	12.9	12.9	3,227.1	3,227.1
Other	1	1	2.5	2.5	2,510.5	2,510.5
Subtotal	2,790	2,868	575.5	591.2		
Private Fire Prot.	7	7				
Total	2,797	2,875				
Water Loss: 8.4 %			52.8	54.3		
Total Water Produced (KCcf)			628.3	645.5		

(END OF APPENDIX C-2)

APPENDIX D-2

Southern California Water Company
Los Osos District

Income Tax Calculations

	1989	1990
	(Thousands of Dollars)	
Total Revenues	\$ 753.0	\$ 813.8
Purchased Power	119.9	122.6
Purchased Water	0.0	0.0
Purchased Chemical	0.5	0.5
Pump Tax	0.0	0.0
Payroll	106.9	111.3
Other O&M	55.9	61.4
Other A&G	39.0	40.1
Business License	0.0	0.0
Ad Valorem Taxes	19.7	22.1
Payroll Taxes	8.1	8.5
Depreciation	70.1	79.9
General Office Alloc.	32.6	34.9
Uncollectible	1.8	1.9
Business License Tax	0.0	0.0
Subtotal	454.5	483.2
Interest	95.5	106.5
Total Deductions	550.0	589.7
State Tax Deprec.	110.3	124.8
State Tax @ 9.3%	15.0	16.5
Federal Tax Deprec.	(5.2)	(8.0)
Federal Tax @ 34%	66.2	73.9
Total Income Tax	81.2	90.4

(END OF APPENDIX D-2)

APPENDIX E-2

Southern California Water Company
Los Osos District

Comparison of typical bills for residential metered customers of various usage-level and average usage level at present and authorized rates for the year 1989.

General Metered Service

(5/8 x 3/4-inch meters)

: Monthly Usage	: At Present Rates	: At Authorized Rates	: Percent Increase

(Cubic Feet)			
300	\$ 9.78	\$ 10.52	7.6%
500	11.28	12.09	7.2
1,000	15.04	16.04	6.6
2,000 (Average)	22.54	23.93	6.2
3,000	30.05	31.82	5.9
4,000	37.55	39.71	5.8
6,000	52.57	55.49	5.5
10,000	82.59	87.05	5.4

(END OF APPENDIX E-2)

APPENDIX A-3

Southern California Water Company
Metropolitan District

Schedule No. ME-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Artesia, Bell, Bell Gardens, Carson, Compton, Cudahy, Culver City, Downy, El Segundo, Gardena, Hawaiian Garden, Hawthorne, Huntington Park, Inglewood, Lakewood, La Mirada, Lawndale, Long Beach, Norwalk, Paramount, Santa Fe - Spring, South Gate, and the communities of Athen, Lennox, and Moneta and vicinity, Los Angeles County, and portions of the city of Los Alamitos and vicinity, Orange County.

RATESPer Meter*
Per month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 3.85	(I)
For 3/4-inch meter	6.00	
For 1-inch meter	8.80	
For 1 1/2-inch meter	14.15	
For 2-inch meter	23.80	
For 3-inch meter	31.00	
For 4-inch meter	56.00	
For 6-inch meter	80.00	
For 8-inch meter	128.00	
For 10-inch meter	206.00	(I)

Quantity Rates:

For all water delivered, per 100 cu.ft. 0.753 (I)

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

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

(END OF APPENDIX A-3)

APPENDIX B-3

Southern California Water Company
Metropolitan 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 Date

-----	-----
1-1-90	1-1-91
-----	-----

SCHEDULE ME-1

Service charge:

For 5/8 x 3/4-inch meter	\$ 0.05	\$ 0.05
For 3/4-inch meter	0.15	0.15
For 1-inch meter	0.20	0.20
For 1 1/2-inch meter	0.25	0.25
For 2-inch meter	0.70	0.70
For 3-inch meter	0.80	0.80
For 4-inch meter	1.00	1.00
For 6-inch meter	2.00	2.00
For 8-inch meter	3.00	3.00
For 10-inch meter	4.00	4.00

Quantity Rates:

For all water delivered, Per 100 cu. ft.	0.015	0.015
--	-------	-------

(END OF APPENDIX B-3)

APPENDIX C-3

Page 1

Southern California Water Company
Metropolitan DistrictADOPTED QUANTITIES

Name of Company: Southern California Water Company

District: Metropolitan

1. Net-to-Gross Multiplier: 1.7024
2. Federal Tax Rate: 34%
3. State Tax Rate: 9.3%
4. Local Franchise Tax Rate: 1.397%
5. Uncollectibles Rate: 0.475%

<u>Offsetable Items</u>		<u>Test Years</u>	
		1989 ----	1990 ----
6. <u>Pump Tax</u>			
Pumped Water (Ccf)	9,606,400	9,606,400	
(A.F.)	22,053.3	22,053.3	
Pump Tax Rate	\$ 71	\$ 71	
Pump Tax	\$ 1,565,800	\$ 1,565,800	
7. <u>Purchased Water</u>			
A. West Basin MWD (A.F.)	33,168	33,117	
Rate Effective (7/1/87)	\$ 231	\$ 231	
West Basin Cost	\$ 7,661,808	\$ 7,650,027	
B. Central Basin MWD (A.F.)	14,894	14,872	
Rate Effective (7/1/87)	\$ 232.30	\$ 232.30	
Central Basin MWD Cost	\$ 3,459,876	\$ 3,454,766	
C. MWD Credit Interruptible Water (A.F.)	4,000	4,000	
Credit Effective (7/1/87)	(44.44)	(44.44)	
Total Credit	\$ (177,800)	\$ (177,800)	
D. City of Cerrito (A.F.)	1,791	1,788	
Rate Effective (7/1/87)	\$ 236.05	\$ 236.05	
Total Cost	\$ 422,676	\$ 422,057	
E. City of Huntington Park (A.F.)	5	5	
Rate Effective (8/1/84)	\$ 291.85	\$ 291.85	
Total Cost	\$ 1,567	\$ 1,567	

APPEXDIX C-3

Page 2

Southern California Water Company
Metropolitan DistrictADOPTED QUANTITIES

F. City of Downey (A.F.)	16	16
Rate Effective (8/1/84)	\$ 232.30	\$ 232.30
Total Cost	\$ 3,717	\$ 3,717
G. Suburban Water System (A.F.)	0.23	0.23
Rate Effective (5/13/87)	\$ 326.70	\$ 326.70
Total Cost	\$ 1,328	\$ 1,328
H. City of Inglewood (A.F.)	10	10
Rate Effective (10/1/87)	\$ 629.83	\$ 629.83
Total Cost	\$ 6,298	\$ 6,298
I. Total Purchased Water Cost	\$ 11,380,600	\$11,363,000

8. Purchased Power

A. DWP, KWh	180,349	180,349
Average Cost/Kwh		
Effective (3/1/88)	\$ 0.25483	\$ 0.25483
Cost	\$ 47,054	\$ 47,341
B. Southern Calif. Edison		
KWh, Schedule GS-TP	277,230	277,212
" " GS-2	92,410	92,404
" " PA-1	9,451,165	9,450,550
" " PA-2	4,903,696	4,903,377
Total KWh	14,724,501	14,723,543
Cost	\$ 1,199,215	\$ 1,199,145
C. Southern Calif. Gas (SCG)		
Total (Therms)	6,087	6,086
Avg. Cost/Therm		
Effective (1/1/88)	\$ 0.069175	\$ 0.069175
SCG Cost	\$ 4,571	\$ 4,570
D. Total Purchased Power Cost	\$ 1,250,800	\$ 1,251,000

9. Ad Valorem Taxes
Tax

\$ 731,300	\$ 765,300
------------	------------

APPENDIX C-3
Page 3

Southern California Water Company
Metropolitan District

ADOPTED QUANTITIES

10. Adopted No. of Service by Meter Size

	1989	1990
	----	----
5/8 x 3/4	73,771	73,978
3/4	185	163
1	8,511	8,533
1 1/2	2,779	2,782
2	2,932	2,922
3	274	273
4	128	128
6	29	29
8	23	23
10	4	4
	-----	-----
Total	88,636	88,835

11. Metered Water Sales
Range Ccf

0--300	3,034,594	3,119,416
Over 300	24,694,206	24,595,884
	-----	-----
	27,728,800	27,715,300

APPENDIX C-3

Page 4

Southern California Water Company
Metropolitan DistrictADOPTED QUANTITIES

12. Number of Services:

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Use-Ccf/Yr</u>	
	1989	1990	1989	1990	1989	1990
Commercial-Metered	87,610	87,834	25,074.0	25,138.0	286.2	286.2
Industrial	323	298	1,003.2	925.6	3106.0	3106.0
Public Authority	700	700	1,602.8	1,602.8	2289.7	2289.7
Resale	1	1	45.4	45.4	45364.4	45364.4
Other	2	2	3.4	3.4	1683.1	1683.1

Subtotal	88,636	88,835	27,728.7	27,715.2		
Private Fire Protect.	1,337	1,382				
Public Fire Protect.	--	--				

Total	89,973	90,217				
Water Loss: 11.5 %			3,607.2	3,587.4		
Total Water Produced (KCcf)			31,335.9	31,302.6		
Pumped Water (KCcf)			9,606.4	9,606.4		
Purchased Water (KCcf)			21,729.6	21,696.3		

(END OF APPENDIX C-3)

APPENDIX D-3

Southern California Water Company
Metropolitan District

Income Tax Calculations

	1989	1990
	(Thousands of Dollars)	
Total Revenues	\$ 27,226.3	\$ 27,758.6
Purchased Power	1,250.8	1,251.0
Purchased Water	11,380.6	11,363.0
Purchased Chemical	48.6	54.0
Pump Tax	1,565.8	1,565.8
Payroll	1,995.4	2,073.2
Other O&M	1,341.1	1,423.8
Other A&G	634.1	656.2
Business License	0.0	0.0
Ad Valorem Taxes	731.8	765.3
Payroll Taxes	151.1	160.3
Depreciation	1,173.1	1,221.9
General Office Alloc.	978.5	1,047.2
Uncollectible	129.3	131.9
Business License Tax	380.4	387.8
Subtotal	21,760.6	22,101.4
Interest	1,752.0	1,822.7
Total Deductions	23,512.6	23,924.1
State Tax Deprec.	1,685.2	1,931.7
State Tax @ 9.3%	292.7	285.5
Federal Tax Deprec.	(140.5)	(214.6)
Federal Tax @ 34%	1,227.4	1,296.0
Total Income Tax	1,520.1	1,581.5

(END OF APPENDIX D-3)

APPENDIX E-3

Southern California Water Company
Metropolitan District

Comparison of typical bills for residential metered customers of various usage level and average usage level at present and authorized rates for the year 1989.

General Metered Service

(5/8 x 3/4-inch meters)

: Monthly Usage	: At Present Rates	: At Authorized Rates	: Percent Increase :

(Cubic Feet)			
300	\$ 5.75	\$ 6.11	6.3%
500	7.25	7.61	4.9
1,000	10.98	11.38	3.7
2,000	18.46	18.91	2.4
2,400 (Average)	21.45	21.92	2.2
3,000	25.93	26.44	2.0
4,000	33.41	33.97	1.7
5,000	40.88	41.50	1.5

(END OF APPENDIX E-3)

APPENDIX A-5
Page 1

Schedule No. A

GENERAL SERVICE

APPLICABILITY

Applicable to all general power service including lighting and power, also for heating service.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

Energy Charge:	Per Meter Per Month
Base Rate per kWh	\$ 0.04281
PPAC Rate per kWh	<u>0.06184</u>
Total per kWh	\$ 0.10465
Customer Service Charge	\$ 3.00

Effective 1/1/1990:

Energy Charge:	Per Meter Per Month
Base Rate per kWh	\$ 0.04425
PPAC Rate per kWh	<u>0.06125</u>
Total per kWh	\$ 0.10550
Customer Service Charge	\$ 3.00

APPENDIX A-5
Page 2

Schedule No. A

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The adjustment amount shall be the product of the total kWh for which the bill is rendered times the adjustment rate per kWh.

2. Service connection having been made, the customer is not permitted to increase the load without first notifying the utility.

3. An applicant for service shall pay an \$8.00 connection charge.

APPENDIX A-5

Page 3

Schedule No. D

DOMESTIC SERVICE - SINGLE-FAMILY ACCOMMODATIONAPPLICABILITY

Applicable only to permanent residents of Bear Valley for domestic single-phase service, including lighting, heating, cooking and power or combination thereof in a single-family accommodation; also to permanent domestic single-phase farm service when supplied through the farm operator's domestic meter.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

Energy Charge:	Per Meter Baseline	Per Month Nonbaseline
Base Rate per kWh	\$ 0.04281	\$ 0.04281
PPAC Rate per kWh	<u>0.03017</u>	<u>0.05883</u>
Total per kWh	\$ 0.07298	\$ 0.10164
Customer Service Charge	\$ 3.00	

Effective 1/1/1990:

Energy Charge:	Per Meter Baseline	Per Month Nonbaseline
Base Rate per kWh	\$ 0.04425	\$ 0.04425
PPAC Rate per kWh	<u>0.02941</u>	<u>0.05818</u>
Total per kWh	\$ 0.07366	\$ 0.10243
Customer Service Charge	\$ 3.00	

APPENDIX A-5

Page 4

Schedule No. D

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The adjustment amount shall be the product of the total kWh for which the bill is rendered times the adjustment rate per kWh.

2. A permanent resident of Bear Valley is one who maintains only one residence and that residence receives electric service from the Bear Valley Electric District and who regularly receives mail, including bills by this utility, through the United States Post Office located at Big Bear City, Big Bear Lake, Fawnskin or Sugarloaf.

3. An applicant for service shall pay an \$8.00 connection charge.

4. Baseline rates under this schedule are applicable only to separately metered residential usage. The utility may require the customer to complete and file with it an appropriate Declaration of Eligibility for Baseline Rates. The following quantities of electricity are to be billed at the rates for baseline usage:

BASELINE QUANTITIES (kWh per Month)

Basic Allowance

Summer	320
Winter	320

All-Electric Allowance

Summer	560
Winter	1200

APPENDIX A-5
Page 5

Schedule No. D

All-electric allowances are available to those customers with permanently installed electric heating as the primary heat source. Summer allowances shall apply between May 1 and October 31, and winter allowances shall apply between November 1 and April 30. For billing purposes, the monthly allowances given above shall be converted within each season to daily allowances, rounded to the first decimal place and multiplied by the number of days to which the billing applies.

5. Supplemental Baseline Allowance - Life-Support Devices: Eligible permanent residential customers may be allowed standard additional baseline quantities of electricity if a member of the household regularly requires the use of life support equipment which utilizes mechanical or artificial means to sustain, restore, or supplant a vital function, or mechanical equipment which is relied upon for mobility both within and outside of buildings, or if a member of the household is paraplegic or quadriplegic. Eligible customers shall make application to the Company that use of an essential life-support device is required. The Company may additionally require that the customer provide the Company with a letter, acceptable to the Company, from a medical doctor or osteopath licensed to practice medicine in the State of California, describing the requirement of such life-support device. The Company may require a new or renewed application and/or certificate when needed in the opinion of the Company.

APPENDIX A-5
Page 6

Schedule No. DM

DOMESTIC SERVICE - MULTI-FAMILY ACCOMMODATIONAPPLICABILITY

Applicable to domestic service including lighting, heating, cooking and power or combination thereof in a multi-family accommodation on a single premise where all single-family accommodations are not separately metered. This schedule is closed to new installations.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Nonbaseline</u>
Base Rate per kWh	\$ 0.04281	\$ 0.04281
PPAC Rate per kWh	<u>0.03017</u>	<u>0.05883</u>
Total per kWh	\$ 0.07298	\$ 0.10164
Customer Service Charge	\$ 3.00	

Effective 1/1/1990:

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Nonbaseline</u>
Base Rate per kWh	\$ 0.04425	\$ 0.04425
PPAC Rate per kWh	<u>0.02941</u>	<u>0.05818</u>
Total per kWh	\$ 0.07366	\$ 0.10243
Customer Service Charge	\$ 3.00	

APPENDIX A-5
Page 7

Schedule No. DM

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The adjustment amount shall be the product of the total kWh for which the bill is rendered times the adjustment rate per kWh.

2. An applicant for service shall pay an \$8.00 connection charge.

3. The following quantities of electricity are to be billed at the rates for baseline usage:

BASELINE QUANTITIES
(kWh per Month per Dwelling Unit)

Summer	120
Winter	120

4. Multiplier: In determination of the multiplier it is the responsibility of the customer to advise the Company within 15 days following any change in the number of single-family accommodations on the meter.

5. Miscellaneous Loads: Miscellaneous electrical loads such as general lighting, laundry rooms, general maintenance and other similar usage incidental to the operation of the premises of a multi-family accommodation will be considered as domestic usage.

APPENDIX A-5

Page 8

Schedule No. DM

6. Exclusions: Electric energy for nondomestic enterprises such as rooming houses, boarding houses, dormitories, rest homes, military barracks, transient trailer parks, stores, restaurants, service stations and other similar establishments must be separately metered and billed under the General Service schedule.

7. Supplemental Baseline Allowance - Life-Support Devices: Eligible permanent residential customers may be allowed standard additional baseline quantities of electricity if a member of the household regularly requires the use of life support equipment which utilizes mechanical or artificial means to sustain, restore, or supplant a vital function, or mechanical equipment which is relied upon for mobility both within and outside of buildings, or if a member of the household is paraplegic or quadriplegic. Eligible customers shall make application to the Company that use of an essential life-support device is required. The Company may additionally require that the customer provide the Company with a letter, acceptable to the Company, from a medical doctor or osteopath licensed to practice medicine in the State of California, describing the requirement of such life-support device. The Company may require a new or renewed application and/or certificate when needed in the opinion of the Company.

APPENDIX A-5

Page 9

Schedule No. DMS

DOMESTIC SERVICE - MULTI-FAMILY ACCOMMODATIONSUBMETEREDAPPLICABILITY

Applicable to domestic service including lighting, heating, cooking and power or combination thereof in a multi-family accommodation on a single premise where all single-family accommodations are separately submetered. This schedule is closed to new installations except for mobile home parks.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Nonbaseline</u>
Base Rate per kWh	\$ 0.04281	\$ 0.04281
PPAC Rate per kWh	<u>0.03017</u>	<u>0.05883</u>
Total per kWh	\$ 0.07298	\$ 0.10164
Customer Service Charge	\$ 3.00	
Discount	\$ 1.35 per dwelling unit per month	

Effective 1/1/1990:

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Nonbaseline</u>
Base Rate per kWh	\$ 0.04425	\$ 0.04425
PPAC Rate per kWh	<u>0.02941</u>	<u>0.05818</u>
Total per kWh	\$ 0.07366	\$ 0.10243
Customer Service Charge	\$ 3.00	
Discount	\$ 1.35 per dwelling unit per month	

APPENDIX A-5
Page 10

Schedule No. DMS

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The adjustment amount shall be the product of the total kWh for which the bill is rendered times the adjustment rate per kWh.

2. An applicant for service shall pay an \$8.00 connection charge.

3. The following quantities of electricity are to be billed at the rates for baseline usage:

BASELINE QUANTITIES
(kWh per Month per Dwelling Unit)

Summer	120
Winter	120

4. Multiplier: In determination of the multiplier it is the responsibility of the customer to advise the Company within 15 days following any change in the number of single-family accommodations on the meter.

5. Miscellaneous Loads: Miscellaneous electrical loads such as general lighting, laundry rooms, general maintenance and other similar usage incidental to the operation of the premises of a multi-family accommodation will be considered as domestic usage.

APPENDIX A-5
Page 11

Schedule No. DMS

6. Exclusions: Electric energy for nondomestic enterprises such as rooming houses, boarding houses, dormitories, rest homes, military barracks, transient trailer parks, stores, restaurants, service stations and other similar establishments must be separately metered and billed under the General Service schedule.

7. Supplemental Baseline Allowance - Life-Support Devices: Eligible permanent residential customers may be allowed standard additional baseline quantities of electricity if a member of the household regularly requires the use of life support equipment which utilizes mechanical or artificial means to sustain, restore, or supplant a vital function, or mechanical equipment which is relied upon for mobility both within and outside of buildings, or if a member of the household is paraplegic or quadriplegic. Eligible customers shall make application to the Company that use of an essential life-support device is required. The Company may additionally require that the customer provide the Company with a letter, acceptable to the Company, from a medical doctor or osteopath licensed to practice medicine in the State of California, describing the requirement of such life-support device. The Company may require a new or renewed application and/or certificate when needed in the opinion of the Company.

APPENDIX A-5

Page 12

Schedule No. D0

DOMESTIC SERVICE - OTHER

APPLICABILITY

Applicable to nonpermanent residents for domestic single-phase service, including lighting, heating, cooking and power or combination thereof in a single-family accommodation; also to domestic single-phase farm service when supplied through the farm operator's domestic meter.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

Energy Charge:	<u>Per Meter Per Month</u>
Base Rate per kWh	\$ 0.04281
PPAC Rate per kWh	<u>0.05883</u>
Total per kWh	\$ 0.10164
Customer Service Charge	\$ 3.00

Effective 1/1/1990:

Energy Charge:	<u>Per Meter Per Month</u>
Base Rate per kWh	\$ 0.04425
PPAC Rate per kWh	<u>0.05818</u>
Total per kWh	\$ 0.10243
Customer Service Charge	\$ 3.00

APPENDIX A-5
Page 13

Schedule No. D0

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The adjustment amount shall be the product of the total kWh for which the bill is rendered times the adjustment rate per kWh.

2. An applicant for service shall pay an \$8.00 connection charge.

APPENDIX A-5

Page 14

Schedule No. SL

STREETLIGHTING

APPLICABILITY

Applicable to municipal or public street, highway and outdoor lighting service supplied from overhead lines where the utility owns and maintains the entire equipment.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

All Night Service		<u>Per Lamp Per Month</u>	
Lamp Rating in watts, mean Lumens and average kwh consumption per month	<u>Monthly Kwh Cost</u>	<u>Streetlighting Facilities Cost</u>	<u>Total Cost Per Month</u>
<u>Incandescent Lamps:</u>			
150 Watt, 2,310 Lumens, 50 kwhs (closed to new installations)	\$ 7.92	\$5.90	\$13.82
<u>Mercury Vapor Lamps:</u>			
100 Watt, 3,120 Lumens, 33 kwhs	5.23	7.03	12.26
175 Watt, 6,600 Lumens, 58 kwhs	9.19	7.08	16.27
400 Watt, 18,200 Lumens, 133 kwhs	21.06	9.13	30.19

Energy Charge Components: The above rates include the following energy components:

Base Rate per kwh	0.04281
PPAC Rate per kwh	0.11555
Total per kwh	0.15836

APPENDIX A-5
Page 15

Schedule No. SL

Effective 1/1/1990:

All Night Service		<u>Per Lamp Per Month</u>	
Lamp Rating in watts, mean Lumens and average kwh consumption per month	<u>Monthly Kwh Cost</u>	<u>Streetlighting Facilities Cost</u>	<u>Total Cost Per Month</u>
<u>Incandescent Lamps:</u>			
150 Watt, 2,310 Lumens, 50 kwhs (closed to new installations)	\$ 8.13	\$6.20	\$14.33
<u>Mercury Vapor Lamps:</u>			
100 Watt, 3,120 Lumens, 33 kwhs	5.37	7.38	12.75
175 Watt, 6,600 Lumens, 58 kwhs	9.43	7.43	16.86
400 Watt, 18,200 Lumens, 133 kwhs	21.63	9.58	31.21

Energy Charge Components: The above rates include the following energy components:

Base Rate per kwh	0.04425
PPAC Rate per kwh	<u>0.11839</u>
Total per kwh	0.16264

APPENDIX A-5
Page 16

Schedule No. SL

SPECIAL CONDITIONS:

1. Purchased Power Adjustment Clause: All service under this schedule will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The total charge shall be the Streetlighting Facilities Cost, plus the product of the average kwh consumption per month times the sum of the base energy rate and the energy adjustment rate per kwh.
2. Standard Equipment Furnished: The above rates are applicable to street lighting equipment mounted on wood poles and installed on bracket arms.
3. Hours of Service: All night service will normally be from dusk to dawn which will be considered as 4,000 hours per year or an average of 333 hours per month.
4. Contracts: A contract for a period of not less than one year and not more than five years may be required for service under this schedule and will remain in effect from year to year thereafter until cancelled.

APPENDIX A-5
Page 17

Schedule No. TOU

TIME-OF-USE SERVICE

APPLICABILITY

Applicable to nondomestic customers whose monthly demand in any time period is expected to be 500 kilowatts or greater, in any three of twelve consecutive months, and to customers whose demand is expected to exceed 500 kilowatts.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

Effective 1/1/1989:

			Per Meter
			<u>Per Month</u>
Demand Charge:			
On-Peak:	Per kw of Billing Demand	.....	\$11.77
Maximum:	Per kw of Billing Demand	.....	5.10
Energy Charge:			
	<u>On-Peak</u>	<u>Mid-Peak</u>	<u>Off-Peak</u>
Base Rate per kwh	.....\$0.04281	\$0.04281	\$0.04185
PPAC Rate per kwh	.....<u>0.00907</u>	<u>0.00503</u>	<u>0.00000</u>
Total per kwh	.....\$0.05188	\$0.04784	\$0.04185
Customer Service Charge:			
\$3.00			
Minimum Charge:			
Per kw of Contract Maximum Demand			
\$0.75			

APPENDIX A-5

Page 18

Schedule No. TOU

Effective 1/1/1990:

	<u>Per Meter</u> <u>Per Month</u>
Demand Charge:	
On-Peak: Per kw of Billing Demand	\$12.38
Maximum: Per kw of Billing Demand	5.28

Energy Charge:

	<u>On-Peak</u>	<u>Mid-Peak</u>	<u>Off-Peak</u>
Base Rate per kwh	\$0.04425	\$0.04425	\$0.04269
PPAC Rate per kwh	0.00875	0.00463	0.00000
Total per kwh.....	\$0.05300	\$0.04888	\$0.04269

Customer Service Charge:\$3.00

Minimum Charge:

Per kw of Contract Maximum Demand\$0.75

SPECIAL CONDITIONS

1. Purchased Power Adjustment Clause: All service under this schedule, including service rendered under the minimum charge, will be subject to the Purchased Power Adjustment Clause described in the Preliminary Statements. The total charge shall not be less than the minimum charge plus the adjustment amount, which shall be the product of the total kwh for which the bill is rendered times the adjustment rate per kwh. Customer bills shall state both the base rate and the PPAC adjustment rate, as well as the total effective rate.
2. Maximum Demand: The maximum demand in any month shall be the highest coincident measured maximum average kilowatt input to the customer's service during any 30 minute interval in the month.

APPENDIX A-5
Page 19

Schedule No. TOU

3. Contract Maximum Demand: The maximum demand that customer requests the utility to provide. The utility may disconnect service (via automatic equipment or otherwise) if the maximum demand exceeds the contract demand. Service will not be re-established unless customer reduces its demand to the contract maximum demand or below.

A three-year contract may be required for service under this schedule with the monthly minimum for three years to be paid in advance. Such advance payment will be credited to customer's monthly bill on a proration basis over the three years.

4. Billing Demand: The billing demand in any month shall be the highest coincident measured maximum average kilowatt input to the customer's service during any 30-minute metered interval in the month occurring during the on-peak and mid-peak periods defined in Special Condition 5.
5. Time Periods: The on-peak period is defined as from 1:00 pm to 7:00 pm weekdays except holidays commencing May 1 and ending October 31 of each year from 5:00 pm to 10:00 pm weekdays except holidays commencing November 1 and ending April 30 of the following year. The mid-peak period is defined as from 9:00 am to 1:00 pm and 7:00 pm to 11:00 pm weekdays except holidays commencing May 1 and ending October 31 of each year and from 8:00 am to 5:00 pm weekdays except holidays commencing November 1 and ending April 30 of the following year. The off-peak period consists of all other hours. Holidays are: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, and Christmas. When any holiday listed above falls on Sunday, the following Monday will be recognized as an off-peak period. No change in off-peak will be made for holidays falling on Saturday.
6. Connection Charge: An applicant for service shall pay an \$8.00 connection charge.

APPENDIX A-5
Page 20

Schedule No. I

INTERRUPTIBLE SERVICE

APPLICABILITY

Service under this schedule is provided under contract at the mutual option of the utility and the customer, and is applicable to all general power and time-of-use service, in combination with service under schedule A and TOU.

TERRITORY

Big Bear Lake and vicinity, San Bernardino County.

RATES

The regular service schedule otherwise applicable shall apply, less the following discounts per kw (to the nearest 0.5 kw), to be applied to the customer's monthly bill through a reduction in billing for purchased power adjustment costs:

Effective 1/1/1989:

Per Meter
Per Month

Per kw of interruptible load \$ 0.37

Per kw of curtailment relative to customer's
maximum operating demand, per interruption:

Schedule TOU customers:

On-Peak or Mid-Peak 50% or Regular
Demand Charge

Off-Peak \$ 0.37

Schedule A customers: \$ 0.37

APPENDIX A-5
Page 21

Schedule No. I

Effective 1/1/1990:

Per Meter
Per Month

Per kw of interruptible load \$ 0.37

Per kw of curtailment relative to customer's
maximum operating demand, per interruption:

Schedule TOU customers:

On-Peak or Mid-Peak 50% or Regular
Demand Charge

Off-Peak \$ 0.37

Schedule A customers: \$ 0.37

Provided, however, that the total bill for service shall not be less than the minimum bill under the regular service schedule otherwise applicable to customer.

SPECIAL CONDITIONS:

1. Purpose: Interruptions in service to customers under this schedule will be the result of anticipated demands on the utility's system that may overload that system's capacity. This schedule does not apply to unanticipated emergencies that may result in disruption of the utility's service.

2. Initiation of Interruption: During emergency conditions as determined by the utility, interruption of all or part of the customer's interruptible load may be initiated by the utility for such time as needed while the emergency condition lasts. At the utility's option, an interruption may be controlled by the utility, or by the customer at the utility's request. If controlled by the customer at the utility's request, the utility shall notify the customer at the end of the period of interruption.

APPENDIX A-5
Page 22

Schedule No. I

3. Notice: The utility shall provide at least one hour notice to customer before the start of any interruption. The utility shall specify the kw to be curtailed, measured relative to customer's maximum operating demand as defined in Condition 7. The discount paid per interruption shall be based on the requested curtailment relative to customer's maximum operating demand. Regardless of whether control is by the utility or by the customer at the utility's request, the utility shall inform the customer at the start of the interruption of the expected duration of the interruption.

4. Excess Load: If the interruption is controlled by the customer at the utility's request and the customer fails to reduce his demand by the requested amount, the utility may discount service (via automatic equipment or otherwise). The requested reduction in demand may not exceed the customer's interruptible load, as defined in Condition 7. The utility may not disconnect service prior to one hour after the request to reduce demand.

5. Time Periods: The time periods for determining discounts to customers regularly served under Schedule TOU shall be the time periods applicable to that schedule.

6. Control Facilities: Control mechanisms and associated wiring shall be installed, tested, and maintained at the direction of the utility at locations selected by the utility and at no expense to the customer. Upon termination of this schedule with respect to any customer, all wiring shall be returned to normal operating condition at the utility's expense.

7. Contract: This schedule is applicable only on annual contract. All or part of a customer's maximum operating demand may be designated as interruptible load. The portion of the customer's demand that is designated as interruptible load shall not be less than 100 kilowatts. The interruptible load shall be specified in the annual interruptible service contract, upon mutual agreement of the utility and the customer. For purposes of designating the customer's interruptible load, the customer's maximum operating demand shall be the customer's highest demand recorded in any time period during the twelve months preceding execution of the annual contract, not to exceed the customer's contract maximum demand under the regular service schedule.

APPENDIX A-5
Page 23

PRELIMINARY STATEMENTS

1. Purchased Power Adjustment Clause

(a) The monthly charges for service otherwise applicable under each of the utility's rate schedules shall include an adjustment amount per kilowatt-hour reflecting in part the utility's cost of purchased power, resulting from the basic rates and fuel clause adjustment factor contained in the Southern California Edison Company Resale Service Schedule applicable to Southern California Water Company.

(b) The average adjustment rate shall be computed by dividing the utility's estimated cost of purchased power, less demand charge revenue from the TOU schedule by the estimated kwh purchased.

For allocation of revenue requirements to customer classes (general service, domestic, streetlighting, and time-of-use), the Equal Percentage Marginal Cost Change shall be computed as: the utility's total sale revenues prior to adjustment for changes in Edison's rates less the revenue from streetlighting facilities charges, divided by the total revenue requirement from sales after adjustment less the streetlighting facilities revenue. The revenue collected from each customer class, except streetlighting, prior to adjustment shall be multiplied by the Equal Percentage Marginal Cost Change to calculate the revenue to be collected after adjustment. The total effective rates for energy sales shall be increased or decreased by equal proportions to produce the customer class' required revenue, to maintain the percentage relationships between total effective energy rates within a class that have been established in the most recent general rate case decision. The results so obtained, rounded to the nearest hundredth of a mill (\$0.00001) shall become the new total effective rates per kwh, and the total effective rates minus the established base rates shall be the PPAC adjustment per kwh.

For the streetlighting class, the Equal Percentage Marginal Cost Change shall be applied to the energy charge component of monthly rates by the same procedure, and the resulting energy rate shall be added to the established streetlighting facilities charge to calculate the total monthly rate.

APPENDIX A-5
Page 24

In the event of changes in demand charges or time periods under Edison's resale service schedule applicable to Southern California Water Company, the following adjustments shall be made in Southern California Water Company's TOU schedule:

- (i) TOU demand charges shall equal Edison's demand charges, less any applicable voltage discounts, multiplied by a factor representing average transmission system and substation losses and during the most recent five-year recorded period.
 - (ii) Maximum demands and kwh sales in each time period shall be averaged over the most recent two-year recorded period.
 - (iii) The revenue estimated to be produced by the calculated demand charges and average maximum demands shall be subtracted from the total revenue to be produced by the TOU class. The resulting kwh-charge revenue shall be divided by kwh sales to indicate the "required average cost per kwh".
 - (iv) The on-peak, mid-peak, and off-peak kwh charges Edison's resale schedule shall be multiplied by kwh sales by time period for the TOU class to indicate the average cost per kwh if billed at Edison rates.
- (c) Each adjustment per kwh may be filed with the California Public Utilities Commission for approval on or before the first day of the month preceding the billing month during which such adjustment per kwh is intended to be effective. The adjustment per kwh shall be applied to bills rendered on and after the effective date and thereafter until the next such adjustment becomes effective.
- (d) The adjustment amount to be included in each bill shall be the product of the total kwh for which service is rendered, multiplied by the applicable adjustment per kwh, except that for purposes of applying the purchased power adjustment to Schedule SL, the monthly consumption per lamp rating contained in Schedule SL will be used.

APPENDIX A-5
Page 25

(e) A Balancing Account shall be maintained to record the difference between the accumulated revenue billed to reflect Edison's purchased power rates and the accumulated actual costs of purchased power. Monthly entries to the Balancing Account will be determined from the following calculations:

- (1) PPACR revenue plus TOU demand charge revenue billed during the month reduced by 1.3% to offset the effect of street franchise taxes.
- (2) Less: Energy purchased from Edison billed at Edison's rates in effect during the month.
- (3) Less: Refunds from Edison to the extent that a corresponding rate increase has been passed on to the utility's customers.

If the above calculation produces a positive amount (over-collection) such amount shall be debited to "Revenue-Energy Cost Balancing Account" and credited to "Other Deferred Credits-Energy Cost Balancing Account". If the calculation produces a negative amount (under-collection) such amount shall be credited to "Revenue-Energy Cost Balancing Account" and debited to "Other Deferred Credits-Energy Cost Balancing Account". Effective March 1, 1980, interest at 7/12% per month of the average of the beginning and ending balance of the "Other Deferred Credits-Energy Cost Balancing Account", debit or credit, will accrue to the Balancing Account.

At intervals not exceeding one year the adjustment per kwh computed as prescribed by Paragraph 1(b) and stated in the tariff schedules shall be adjusted to cause the accumulated revenue billed to offset Edison's rates to substantially equal the accumulated actual cost of purchased power.

(END OF APPENDIX A-5)

APPENDIX D-5

BEAR VALLEY ELECTRIC DISTRICT

Income Tax Calculation

(Dollars in Thousands)

	<u>1989</u>	<u>1990</u>
Operating Revenues	\$8,917.2	\$9,170.4
Operating Expenses	\$7,303.8	\$7,465.8
Taxes Other Than On Income	\$ 238.0	\$ 249.1
Subtotal	\$7,541.8	\$7,714.9
California Income Tax Adjustment:		
Tax Depreciation	\$ 663.6	\$ 748.5
Interest Charges	\$ 463.9	\$ 485.2
Other Sch. M Items	\$ (13.2)	\$ (13.2)
Book Depreciation	\$ (467.0)	\$ (504.0)
Fiscal/Cal. Yr. Adj.	\$ 2.7	\$ 2.7
Total CCFT Adjustments	\$ 650.0	\$ 719.2
Calif. Taxable Income	\$ 725.4	\$ 736.4
CCFT Tax Rate	9.3%	9.3%
Total CCFT	\$ 67.5 *****	\$ 68.5 *****
Federal Income Tax Adjustment:		
Tax Depreciation	\$ (11.9)	\$ (23.7)
Interest Charges	\$ 463.9	\$ 485.2
Other Sch. M Items	\$ (13.2)	\$ (13.2)
Book Depreciation	\$ 0.0	\$ 0.0
Fiscal/Cal. Yr. Adj.	\$ 2.7	\$ 2.7
Total FIT Adjustments	\$ 441.5	\$ 451.0
Federal Taxable Income	\$ 866.4	\$ 936.1
FIT Tax Rate	34.0%	34.0%
Total FIT	\$ 294.6 *****	\$ 318.3 *****

(Negative Figure)

(END OF APPENDIX D-5)

APPENDIX F
Page 1

Branch's Recommendations

Rate Design

1. SoCalWater should provide a marginal cost study in its next general rate case application. SoCalWater can use Southern California Edison Company's TOU-R wholesale rates of energy and demand to derive its marginal energy cost and generation-related marginal demand cost, or use any other appropriate method. However, SoCalWater should also develop for its own system transmission and distribution-related marginal demand cost and marginal customer cost by class of customers.

2. SoCalWater should develop its own load research data and keep records of each class of customers' coincident and non-coincident peak demand. These records are essential in constructing appropriate marginal costs, which are used to allocate a fair share of cost among customer classes.

3. Revenue allocation should be based on marginal costs. These costs should include energy, demand, and customer marginal costs, which are developed in Chapter 1 of Exhibit 23.

4. Demand costs related to generation and transmission should be allocated to customer classes on the basis of class coincident demand imposed on the systems.

5. Demand costs related to distribution should be allocated to customer classes on the basis of class non-coincident demand imposed on the distribution system.

6. Streetlighting facility charges are unique to streetlighting customers and should be excluded from total revenues before allocating revenue requirements among customer classes.

APPENDIX F
Page 2

7. Branch recommends full equal percent marginal cost revenue allocation in test year 1989 for all the rate classes with a cap on rate increases for the streetlighting class. The revenue requirement of the streetlighting class is increased at the same rate as that of the TOU class. And, Branch recommends system average percentage change (SAPC) revenue allocation for test year 1990.

8. Baseline allowances for permanent residents should be set at 50% of average aggregate consumption for basic customers in the summer and winter seasons and for all-electric customers in the summer. The baseline allowances for all-electric customers should be set at 60% of average aggregate consumption.

9. Branch recommends no baseline allowances for second homes since the customers have been granted baseline allowances at their primary residence.

10. The lower cost second baseline tier should be eliminated. California Public Utilities Code § 739(c) requires electric corporations to have increasing block domestic rates.

11. The baseline rate should be set at 70% of system average rate.

12. The discount applied to DMS customers should be retained in the tariff.

13. SoCalWater's customer charge of \$3.00 per month is reasonable.

14. Branch concurs with SoCalWater on the rate structure for Schedule A customers. However, Branch recommends that its general service rates, which differ from that of SoCalWater's due to the fact that Branch has different revenue allocated to this class and different sales forecast should be adopted.

APPENDIX F
Page 3

15. Schedule TOU-0 should be merged with schedule TOU since their rates are exactly the same.

16. Demand charges should be based on marginal cost.

17. The meters for TOU customers should have a battery backup for meter operation.

18. SoCalWater should keep proper records on streetlighting facilities costs and update the costs in each filing.

19. Streetlighting facilities charges should be excluded from the EPMC and SAPC revenue allocations since the charges are unique to the streetlighting class. Other than the streetlighting facilities charges, the streetlighting class should be treated the same as other rate classes.

20. SoCalWater should report to the Commission a schedule for converting the existing incandescent lamps to mercury vapor lamps by June 30, 1989.¹

Purchased Power Balancing Account Amortization (PPBA)

The overcollection in the PPBA has increased to \$941,521 on July 31, 1988 from \$794,849 on April 30, 1988 as reported by the Branch auditor on page 2-3 of this Exhibit 22. Since this balance is about 10% of revenue, Branch recommends that the PPBA amortization be adjusted by amortizing the balance over 24 months at the time of the decision in this matter. Branch further recommends that SoCalWater report the PPBA balance to the Commission at least once a year.

¹ Branch's recommendation request this information by January 1, 1989. However, in order to allow SoCalWater a reasonable period to compile the information, this date is extended.

I N D E X

<u>Subject</u>	<u>Page</u>
Metropolitan District	47
Discussion	48
Service Problems in the Desert District	48
Discussion	50
Rate Design - Water	51
Rate Design - Electric	52
Discussion	53
Attrition	54
Balancing Account	54
Comments on the Proposed Decision	55
Tax on Unskilled Revenues	55
Service Problems in the Desert District	55
Branch Recommendations Regarding the Bear Valley Electric District	56
Findings of Fact	56
Conclusions of Law	61
Order	62
Appendixes A through F	

I N D E X

<u>Subject</u>	<u>Page</u>
Metropolitan District	47
Discussion	48
Service Problems in the Desert District	48
Discussion	50
Rate Design - Water	51
Rate Design - Electric	52
Discussion	53
Attrition	54
Balancing Account	54
Findings of Fact	55
Conclusions of Law	59
Order	60

revenues. TRA 86 has merely synchronized the actual taxes paid by the utility with the ratemaking taxes. Therefore, SoCalWater has been collecting in rates the taxes on the unbilled revenues, in any given year, although the actual taxes it paid to the IRS were only on the actually billed revenues, which were almost always lower than the revenues based on the actual sales during the year which included the unbilled revenues. If we were to allow SoCalWater to amortize, over four years, the additional 1986 taxes of \$4.8 million, the ratepayers will be charged twice for a portion of 1986 taxes. Therefore, we will not allow SoCalWater to amortize the \$4.8 million tax assessment for 1986.

Los Osos District - Construction
Of Calle Cordoniz Reservoir

D.83-04-069, dated April 20, 1983, approved the construction and inclusion in rate base of a reservoir in the Los Osos District referred to by SoCalWater as the Calle Cordoniz reservoir. Since that decision SoCalWater has been unable to construct the Calle Cordoniz reservoir because of the denial of approval by the County of San Luis Obispo.

The rates adopted in D.83-04-069 were based on the inclusion of the Calle Cordoniz reservoir in rate base. Since the reservoir is not in the rate base, the ratepayers have been overcharged. Branch recommends that the overcharges be refunded to the ratepayers. A similar recommendation was made by Shauna Sullivan appearing on her own behalf and for the San Luis Obispo County Community Service Area 9 Advisory Board.

SoCalWater contends that its inability to construct the reservoir results from foot dragging by the bureaucracy of the County of San Luis Obispo. According to SoCalWater, it has been making continuous good-faith efforts to construct the reservoir. Therefore, SoCalWater believes that it should not be required to refund the portion of rates associated with the Calle Cordoniz reservoir. According to SoCalWater, the most equitable approach

following baseline quantities for single-family dwellings for test years 1989 and 1990:

<u>Baseline Quantity</u>	<u>Summer kWh/Month</u>	<u>Winter kWh/Month</u>
Basic	320	320
All-Electric	560	1,200

Based on similar analysis, Branch recommends a baseline allowance of 120 kWh/month customer for domestic multifamily residences.

Branch's recommendations for baseline allowances are for permanent residents only. Branch maintains that 99% of the nonpermanent residents are California residents who own second homes in Bear Valley service territory, and therefore, do not qualify for baseline allowance.

Turning to the question of rates for baseline quantities, Branch recommends that the baseline rate be set at 70% of the system average rate. According to Branch, this rate will avoid a large bill increase as well as simplify the implementation of the baseline structure.

In addition to its recommendations regarding residential customers, Branch has made several other recommendations regarding rate design in Exhibit 23. SoCalWater has agreed to comply with all of Branch's recommendation. There are no disagreements between SoCalWater and Branch regarding revenue allocation between customer classes and rate design for other customer classes.

Discussion

Branch's proposed rate design for residential customers is in compliance with the requirements of SB 987. The Branch-proposed rate design for other classes of customers is in compliance with the Commission guideline. Therefore, we will adopt the rate design proposed in Exhibit 23.

Findings of Fact

1. On May 11, 1988, SoCalWater filed applications requesting rate increases for water service in its Barstow, Desert, Los Osos, and Metropolitan Districts and for electric rate increase in its Bear Valley Electric District.

2. SoCalWater requests rates which would produce rates of return on its rate base of 11.43% in 1989, 11.49% in 1990, and 11.52% in 1991 with a constant ROE of 13.5% in each of the three years.

3. Branch recommends a range of 11.75% to 12.25% as the proper ROE for SoCalWater for the three years.

4. SoCalWater revised its estimate of the cost of future long-term debts from 10.50% to 11%.

5. Branch contends that the cost of future long-term debt will be 10.5%.

6. The estimates for the cost of future long-term debt are based on long-range forecasts for 30-year maturity "AA" and "A" rated bonds.

7. SoCalWater proposes to issue bonds with 15-year maturity, which yield lower interest rates.

8. In making its estimate for the cost of SoCalWater long-term debts with a 15-year maturity, Branch made an allowance of 25 basis points to the long-range forecasts for interest rates for bonds with a 30-year maturity. SoCalWater made no such adjustment.

9. Branch's estimated cost of 10.50% for SoCalWater's future long-term debt is most likely to occur.

10. Water utilities do not face the same business risks as energy and communications utilities.

11. Bond rating agencies apply more relaxed standards to water utilities than energy and communication utilities.

12. An ROE 12% would provide a pretax interest coverage of 3.18x in 1989, 3.17x in 1990, and 3.16x in 1991.

Comments on the Proposed Decision

SoCalWater has filed comments on the ALJ's proposed decision. Based on our review, we believe the following modifications and/or corrections to the decision should be made:

Tax on Unskilled Revenues

The proposed decision states that:

"SoCalWater's FIT for the unbilled revenues for 1986 was approximately \$4.8 million (companywide basis). In accordance with the provisions of TRA 86, SoCalWater has elected to pay this additional FIT evenly over the four-year period 1987 through 1990. In order to recover the \$4.8 million, SoCalWater has added \$1.2 million ($4.8 \div 4$) to each of its test year FIT estimates."

This statement is not correct; \$4.8 million is the amount of unskilled revenues, not the amount of the federal income tax on the unbilled revenues. SoCalWater proposes to include one quarter of this \$4.8 million in its taxable income in each of the years 1987 through 1990. Accordingly, we have modified the language on pages 41 and 42 to reflect this correction.

Service Problems in the Desert District

The proposed decision defers the rate increase in the Desert District pending reports from both SoCalWater and Branch and further hearings regarding the service problems in the district. SoCalWater opposes the delay in the rate increase for the Desert District. According to SoCalWater, such a delay would leave in place rates in the Desert District that would produce a rate of return less than 10.91% (based on 12% return on equity) which has been found to be just and reasonable for 1989 in this proceeding. SoCalWater contends that rates that do not yield a reasonable return to a utility are confiscatory and violative of the Fourteenth Amendment to the Constitution.

SoCalWater correctly points out that the decision finds a 12% return on equity reasonable for the three test years, which

13. With the interest coverage of over 3.0x, SoCalWater is most likely to qualify for an "AA" rating for its bonds.

14. An ROE of 12% will adequately cover SoCalWater's risk and its need for additional capital.

15. An ROE of 12% will produce overall rates of return of 10.91%, 10.95%, and 10.99% for 1989, 1990, and 1991, respectively.

16. SoCalWater estimates the expenses for the general office outside services to be \$277,900 and 293,900 for 1989 and 1990, respectively.

17. Branch estimates for the general office outside service expenses are \$192,900 for 1989 and 1990.

18. In preparing its estimate for expenses for outside services, SoCalWater has added to Branch's estimate the additional expenses for 1987 recruitment fees, training, and legal fees.

19. The Commission does not allow recovery of past expenses in future test years unless specific provision has been made to accrue them for future amortization.

20. No provision was made for the accrual of the recruiting expenses incurred during 1987 and they appear to be ordinary operating expenses which are provided for in test year ratemaking.

21. SoCalWater has justified the need for the additional allowance for training.

22. SoCalWater has not justified the additional expense for legal fees.

23. Disallowance of 1987 recruitment fees and the additional legal fees would result in SoCalWater's outside service expenses estimates of \$259,900 and \$258,900 for 1989 and 1990, respectively.

24. In calculating the working cash allowance SoCalWater and Branch have used revenue lag days of 54.85 and 50, respectively.

25. SoCalWater uses the revenue lag of 54.85 days developed by a lead-lag study conducted in 1968 which did not take into consideration the improvements in revenue collection process.

26. Branch developed its estimate of revenue lag by estimating the various stages of revenue collection process.

27. In developing its revenue lag estimate, Branch took into consideration improvements in revenue collection process.

28. TRA 86 required utilities calculate and pay their FIT by including unbilled revenues in their taxable income.

29. SoCalWater's FIT for the unbilled revenues for 1986 was approximately \$4.8 million, which SoCalWater has elected to pay over the next four years.

30. SoCalWater has included the amortized portion of additional taxes on the unbilled revenues in its tax estimates for each of the test years in this proceeding.

31. SoCalWater's ratemaking taxes included an allowance for taxes on unbilled revenues.

32. Allowing SoCalWater to recover the additional \$4.8 million in taxes would result in the ratepayers being charged twice for the same tax expense.

33. D.83-04-069 adopted rates which were based on the inclusion of the Calle Cordoniz reservoir in the Los Osos District rate base.

34. The Calle Cordoniz reservoir is not in service at this time.

35. Ratepayers have been overcharged for rates associated with the Calle Cordoniz reservoir.

36. SoCalWater has consented to refund the overcharges.

37. SoCalWater's estimate of overcharges is \$200,600 through December 31, 1988.

38. SoCalWater has refunded \$71,663 of the overcharges associated with the Calle Cordoniz reservoir.

39. The net overcharges for the Calle Cordoniz reservoir are \$128,900.

40. The refunds for overcharges associated with the Calle Cordoniz reservoir will be easier to track if they are refunded over this rate case cycle.

41. Branch recommends that the overcharges be refunded with a 12% interest.

42. SoCalWater opposes any interest on the overcharges because there is no interest allowed on water utility balancing accounts.

43. In water utility balancing accounts the risks of overcollections and undercollections are shared by the utility and the ratepayers.

44. The overcollection for Calle Cordoniz reservoir has allowed SoCalWater the use of additional funds with no offsetting benefits to the ratepayers.

45. SoCalWater is allowed an interest rate of 7% for its ECAC balancing account for the Bear Valley Electric District.

46. The Commission's practice has allowed the use of the ECAC balancing account interest rates for other balancing accounts.

47. Branch recommends the disallowance of \$256,000 of plant additions from the 1988 SoCalWater's estimated plant additions of \$1,366,300 for the Bear Valley Electric District.

48. The information in support of SoCalWater's disputed plant additions was provided only one day before its draft report was due.

49. Branch witness had adequate time to review the information regarding the proposed plant addition before he testified.

50. SoCalWater has provided adequate justification in support of the plant additions in contention.

51. The two service areas of the Desert District have service problems as well as high rates.

52. SoCalWater has not taken the necessary steps to address the service problems.

53. There is an immediate need to address the service problems in the Desert District.

54. The steps needed to address the service problems in the Desert District may have an impact on the district's revenue requirements.

55. SoCalWater will continue to have a positive net revenue and rate of return in 1989 and 1990 for the Desert District at present rates.

56. Bell Gardens protested the proposed increase because it was concerned about needed system improvements within the city.

57. Bell Gardens, SoCalWater, and Branch filed a stipulation regarding the resolution of Bell Gardens' problem.

58. The stipulation requires Bell Gardens and SoCalWater to negotiate in good faith to develop program for implementing the system improvements. According to the stipulation, the step increases for 1990 and 1991 within the Bell Gardens' service area are contingent upon SoCalWater's good faith effort in negotiating with Bell Gardens.

59. Bell Gardens, SoCalWater, and Branch request that the Commission adopt the stipulation.

60. Branch-proposed rate design for water as well as electric service is consistent with the Commission policy.

61. SoCalWater stipulated to Branch-proposed rate design.

Conclusions of Law

1. A cost of 10.50% for SoCalWater's future long-term debt is reasonable and should be adopted.

2. An ROE of 12% is just and reasonable for SoCalWater for 1989, 1990, and 1991.

3. The estimates for the general office outside service expenses of \$259,900 and \$258,900 for 1989 and 1990 are reasonable and should be adopted.

4. The working cash allowance should be computed with a revenue lag of 50 days.

5. SoCalWater should not be allowed to recover the additional taxes of \$4.8 million on the unbilled revenues for 1986.

6. SoCalWater should refund the balance of overcharges of \$128,900 associated with Calle Cordoniz reservoir over this rate case cycle.

7. An interest rate of 7% should be applied to the overcharges.

8. SoCalWater's estimate of \$1,366,300 for 1988 plant additions should be adopted.

9. Further evidentiary hearings should be held to address the problems of service and high rates in the Desert District and the rate revision for the district should be deferred until the hearings are completed and the Commission issues a decision.

10. The stipulation filed by Bell Gardens, SoCalWater, and Branch should be adopted.

11. The Branch-proposed rate design should be adopted.

12. The applications should be granted to the extent provided by the following order.

13. Because of SoCalWater's immediate need for rate relief, this order should be made effective today.

ORDER

IT IS ORDERED that:

1. Southern California Water Company (SoCalWater) is authorized to file revised schedules for its Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts attached to this decision as Appendix A. This filing shall comply with General Order (GO) 96. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1989, SoCalWater is authorized to file an advice letter, with appropriate workpapers, requesting

the 'step rate increases for 1990 included in Appendix B, or to file a proportionate lesser increase for those rates in Appendix B for Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts, respectively, in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1989, exceeds the later of (a) the rate of return found reasonable for SoCalWater during the corresponding period in the then most recent rate decision or (b) 10.91%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the Commission Advisory and Compliance Division (CACD) to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with this decision. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 30 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1990, SoCalWater is authorized to file an advice letter with appropriate workpapers, requesting the step rate increases for 1991 included in Appendix B, or to file a proportionate lesser increase for those rates in Appendix B for Barstow, Los Osos, Metropolitan, and Bear Valley Electric Districts, respectively, in the event that district's rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1990, exceeds the later of (a) the rate of return found reasonable for SoCalWater during the corresponding period in the then most recent decision or (b) 10.95%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are

not in accord with this decision. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 30 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

4. Within 120 days from the effective date of this order, SoCalWater shall file a report including short-term and long-term plans for improving service in the Desert District. The report shall also address the proposal made by the Water Utilities Branch (Branch) to provide relief from high rates in the district.

5. Branch shall review SoCalWater's report on the Desert District and file its comments 90 days after the report is made available.

6. SoCalWater shall notify each customer, through bill inserts, that the report on the Desert District will be available upon request.

7. Further hearing on the Desert District problems will be held after SoCalWater's report and Branch's response are made available.

8. The rate revision for the Desert District shall be deferred until further Commission order following the hearing on the Desert District problems.

A.88-05-019 et al. ALJ/AVG/bg

9. The proceedings in A.88-05-019, A.88-05-023, A.88-05-024, and A.88-05-026 are closed. The proceeding in A.88-05-021 remains open for further evidence.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A-1

Southern California Water Company
Barstow District

Schedule No. BA-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

		Per Meter*	
		Per Month	
Quantity Rates:			
First 10,000 cu.ft., per 100 cu.ft.		\$0.500	(I)
Over 10,000 cu.ft., per 100 cu.ft.		0.409	(I)
Service Charge:			
For 5/8 x 3/4-inch meter	.....	\$ 6.35	(I)
For 3/4-inch meter	.....	6.20	
For 1-inch meter	.....	8.50	
For 1 1/2-inch meter	.....	10.80	
For 2-inch meter	.....	20.00	
For 3-inch meter	.....	26.00	
For 4-inch meter	.....	46.00	
For 6-inch meter	.....	74.00	
For 8-inch meter	.....	102.00	
For 10-inch meter	.....	187.00	(I)

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

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

(END OF APPENDIX A-1)