

ALJ/AVG/btr *

Decision 90 02 020 FEB 7 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

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

(For appearances see Decision 89-01-043.)

Additional Appearances

Robert H. Clark, Attorney at Law, and
Paul N. Geeson, for Morongo Valley
 Community Services District; Susan
Coyle, Charlotte de Stone, Ronald B.
Flick, Ardelle Gritten, Marianne
Haines, Jeannie Lindberg, Donald W.
Shermoen, for themselves; and Jon
Sebba, for Ron Flick; interested
 parties.

Substitution of Appearance

Han L. Ong, for the Commission Advisory
 and Compliance Division.

O P I N I O N

Summary of Decision

This decision authorizes the following rate increases to
 Southern California Water Company (SoCalWater) for its Desert
 District.

<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>
\$133,000	9.52%	\$48,310	3.24%	\$36,600	2.18%

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 authorizes SoCalWater to charge a connection fee in the Desert District on a trial basis until further Commission order.

Background

On May 15, 1988, SoCalWater filed Application (A.) 88-05-021 requesting rate increases for its Desert District. Concurrently with the rate increase request for the Desert District, SoCalWater also filed applications for rate increases in its Barstow, Los Osos, Metropolitan, and Bear Valley (Electric) Districts.

On January 27, 1989, the Commission issued Decision (D.) 89-01-043 which authorized rate increases for all other districts except the Desert District. In D.89-01-043, the Commission expressed concern over the high water rates in the Desert District and also concluded that the district had serious service problems. The Commission, while adopting a summary of earnings for the Desert District, deferred the rate revision for the district and ordered SoCalWater to prepare a report on the short-term and long-term plans for improving the service in the Desert District and to address certain proposals made by the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division to provide relief from high rates in the district. The Commission also ordered Branch to file comments on SoCalWater's report.

As ordered by the Commission, SoCalWater and Branch filed their reports. Hearings on the reports were held before Administrative Law Judge Garde in Yucca Valley on August 9, 1989 and in Victorville on August 9 and 10, 1989. Both SoCalWater and Branch presented witnesses and introduced exhibits into evidence.

In addition, members of the public and representatives of certain organizations made statements or appeared as witnesses. ✓

The 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, Victorville #1 through Victorville #5, spread between Lucerne Valley on the east and Apple Valley-Victorville on the west. The Morongo Valley service area, which is 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.

The water produced from the wells is currently being served with little or no treatment except at one of the wells supplying Victorville #3 system. The water from this well contains high level of fluoride and is used only in an emergency. The wells will require additional treatment and testing to meet the requirements of the California Department of Health Services.

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.

The district's storage consists of 12 steel tanks. There are seven tanks in Victorville with a combined capacity of 1,003,000 gallons. The other five tanks, with a combined capacity of 496,700 gallons, are in Morongo Valley.

The Victorville service area and the Morongo Valley service area have 2,297 and 888 customers, respectively.

Service Issues

SoCalWater's Plans for Improvements

According to SoCalWater, it has taken or plans the following actions to improve the service in the district:

Victorville Service Area

A. Water Quality

1. SoCalWater implemented a flushing program for the mains for Victorville #4 system in March 1989. At the completion of the hearing, 90% of the Victorville #4 system had been flushed. SoCalWater plans to extend the flushing program to other systems in the Victorville service area.
2. SoCalWater has changed the oil-lubricated well pumps to water-lubricated pumps in the Victorville service area. This conversion along with the flushing program will eliminate the oil residue from the water.
3. SoCalWater has treated the Bear Valley Well to eliminate the source of nonpathogenic iron bacteria. SoCalWater is developing a formalized schedule to treat other wells.

B. Leaks and Fire Flow Requirements

Most of the mains in Victorville #1 and #4 systems were installed before SoCalWater purchased the system in 1962. The mains are undersized steel pipes and are deteriorating. The deterioration of mains is causing a high number of leaks.

In addition to the problem of leaks, the old undersized mains fail to deliver the required fire flow. Because of this inadequacy, the Apple Valley Fire Protection District (AVFPD) on October 10, 1985 adopted Resolution 85-143 which imposed a building moratorium within Victorville #1 and #4 systems. After SoCalWater made the necessary improvements, the AVFPD on October 8, 1987 lifted the building restriction in Victorville #1 system. The restriction remains in effect for Victorville #4 system.

To address the above problems, SoCalWater revised its capital budget for system supply and distribution improvements for 1989, 1990, and 1991. In its revised budget,¹ SoCalWater proposes an extensive main replacement program for 1989, 1990, and 1991. The main replacement program also includes interconnection of Victorville #4 system with Apple Valley Ranchos Water Company and Victorville #1 system. Along with the main replacement program, the revised budget also include other improvements such as improved storage capacity, pumping facilities, etc.

After the improvements proposed for 1989, 1990, and 1991 are completed, there will be 251,000 feet of steel mains remaining in the Victorville service area. SoCalWater estimates that replacement of the remaining 251,400 feet of steel mains, including services, houselines, and fire hydrants will cost \$7.6 million if it is completed over a 15-year period beginning in 1992. To complete the replacement in 15 years SoCalWater will have to replace an average of 16,750 feet per year at a cost of \$500,000 per year in 1989 dollars.

C. Other Improvements

SoCalWater extended the district office hours in the Victorville service area from half-day to full day in April 1988. The increase in office hours was required by the rapid customer growth in the area. In May 1988, SoCalWater also added a full-time service person to reduce overtime and improve response to requests for customer service and leak repairs.

¹ The details of the revised budget is included in Exhibit S-2 entitled "Southern California Water Company, Desert District Report in compliance with Ordering Paragraph 4 of Decision 89-01-043."

Morongo Valley Service Area

A. Leaks

Except for high rates, most customer complaints for the Morongo service area were regarding leaks. In 1988, there were 344 reported complaints regarding leaks. SoCalWater completed a leak detection study on all mains in the Morongo Valley service area in September 1988. The study detected approximately 75 leaks which were repaired.

In addition to the leak detection program, SoCalWater has ongoing main replacement program ordered by D.83-08-006.

D.83-08-006 ordered SoCalWater to implement a 10-year main replacement program to reduce water loss from leaks. In late 1984, the main replacement program was held in abeyance due to a possible takeover of the system by the County of San Bernardino. When the county abandoned its plans to acquire the system in 1986, the Commission, in D.87-11-008, ordered SoCalWater to resurrect the main replacement program. D.87-11-008 also extended the replacement period from 10 years to 15 years.

SoCalWater expects to replace approximately 40,000 feet undersized steel mains with PVC pipes by 1990. SoCalWater is replacing mains at the rate of 3,600 feet per year.

B. New Office

In September 1988, SoCalWater opened a local district office in Morongo Valley to provide half-time service to customers for such activities as bill payment, bill inquiries, service requests, and complaints. About 90 customers pay their bill at the office. Before the opening of the district office, Morongo Valley customers were served through SoCalWater's Claremont Office which is about 90 miles from Morongo Valley.

C. Additional Employee

In February 1989, SoCalWater employed an additional full-time temporary employee to the work force to improve response time to customer service requests and complaints. This addition brings

the Morongo Valley service area work force complement to one foreman and two full-time service persons. In addition, the Morongo Valley Service Area is supervised by the Pomona Valley District Superintendent.

Branch's Position

Branch reviewed SoCalWater's proposed improvements for 1989, 1990, and 1991 and conducted its own field investigation. Based on its analysis, Branch believes that the proposed improvement program is reasonable and will achieve the desired results.

As to the proposed improvements to the fire flow capabilities in the Victorville service area, Fire Chief Lewis of the AVFPD recommended that the Commission approve the improvements.

While Branch is in substantial agreement with SoCalWater's plans for improving service in the district, it disagrees with SoCalWater regarding the following three issues:

1. Whether the new employee added in the Morongo Valley service area should be a full-time or a half-time employee;
2. The addition of a new truck each for the Morongo Valley and Victorville service areas; and
3. The extent of future main replacements in the Victorville service area.

Additional Full-Time Employee in Morongo Valley Service Area

As mentioned earlier, in February 1989, SoCalWater hired an additional employee in its Morongo Valley Service Area, bringing the total number of employees to three. Ever since being hired, the new employee has been working full time. This position was not included in SoCalWater's originally proposed budget in A.88-05-021 and the expense for the position is not included in the adopted summary of earnings in D.89-01-043.

Branch believes that the new employee should work half-time. Branch asserts that funding for the full-time position being requested is not reasonable since Morongo Valley service area's payroll per customer at \$5.58 is higher than Victorville service area's payroll per customer of \$5.53. According to Branch, the payroll per customer will increase to \$7.53 or \$6.56 depending on whether the new employee is authorized on a full-time or half-time basis. Branch points out that the salary of a half-time employee is very close to the overtime pay paid to the regular employees in 1988.

Branch contends that the need for service calls in the Morongo Valley service area will decrease as the system improvements are completed. Therefore, Branch opines that a half-time employee should be adequate to meet the service needs in Morongo Valley.

SoCalWater contends that the addition of the new employee has resulted in a number of benefits to its customers in Morongo Valley. According to SoCalWater, hiring of the new employee has brought about a significant drop in overtime as well as decrease in uncollectible accounts receivable in the service area. SoCalWater asserts that the greatest benefit to be realized by adding the new employee on a full-time rather than half-time basis is that it will allow SoCalWater to perform flushing and maintenance of the mains which have been ignored in the past for want of manpower. SoCalWater maintains that the Morongo Valley system is a complex system with nine separate pressure zones requiring the additional employee on a full-time basis.

Discussion

The new employee has worked full time since being hired in February 1989. Even with the new employee working full time, some overtime was still needed in the Morongo Valley service area. This clearly indicates that the new employee needs to work full time.

We appreciate Branch's concern regarding the high payroll per customer ratio in the Morongo Valley service area. However, the higher ratio results mainly because the Morongo Valley service area has less than half the number of customers in the Victorville service area. We also agree with Branch that the need for service calls will decrease as the system improvements are completed. However, we do not expect such reduction to occur in this rate case cycle. We will authorize the additional employee on a full-time basis for the Morongo Valley service area.

While we authorize funding for the full-time employee, we emphasize such authorization does not provide SoCalWater a "blank check" to spend unlimited funds to improve the service in the district. We expect SoCalWater to restrict its staffing to a level necessary to achieve the required results.

Additional Trucks

SoCalWater's capital budget program includes funds for the purchase of an additional truck for each of the two service areas in the Desert District. Accordingly, it requests that the adopted summary of earnings reflect these additional vehicles. Branch opposes the request for new trucks.

According to SoCalWater, the additional truck in Morongo Valley is for the use of the new employee. SoCalWater contends that all three employees in the service area are often in the field and making service calls and therefore, require separate vehicles. The additional truck in the Victorville service area will replace a leased truck, with no net increase in the number of vehicles.

Branch opposes the request for two additional trucks because SoCalWater's request amounts to one truck per service person. Branch contends that SoCalWater's request does not make allowance for the time spent by service person in the office and vacation and sick leave time of employees. Branch maintains that frequently more than one service person is needed for service calls

and that service persons should share the trucks and get by with fewer trucks.

Discussion

A water utility service person performs tasks such as checking well sites, static water levels in wells, pumping levels, oil levels in the pumps, fixing water mains, and responding to other system and customer needs. These tasks usually involve one service person. Therefore, SoCalWater's request for one truck per service person is not unreasonable. Furthermore, one truck per service employee is also necessitated by the possibility of one vehicle being out of service from time to time. Accordingly, we will authorize SoCalWater's request for two new trucks.

Victorville Service Main Replacement Program

As mentioned earlier, SoCalWater proposes extensive main replacement program in 1989, 1990, and 1991 as part of its system improvement proposals. Following this main replacement program there will be 251,400 feet of steel mains remaining in the Victorville service area. SoCalWater estimates that replacement of the remaining 251,400 feet of steel mains, including services, houselines, and fire hydrants will cost \$7.6 million if it is completed over a 15-year period beginning in 1992. To complete the replacement in 15 years SoCalWater will have to replace an average of 16,750 feet per year at a cost of \$500,000 per year in 1989 dollars.

Branch believes that SoCalWater should be required to proceed with the 15-year main replacement program beginning in 1992. However, SoCalWater believes that these replacement costs if included in the rate base, would have a tremendous impact on rates. According to SoCalWater, such rate impacts could be devastating on ratepayers already burdened with high rates. Therefore, SoCalWater requests that this type of replacement program should only be ordered if alternate means of financing, discussed later in this order, are adopted. ✓

Discussion

We agree with SoCalWater that the main replacement program beginning with 1992 will have a large impact on the rates in the district and that alternate means of financing capital improvements will be necessary. Since we are authorizing, later in this order, an alternate method of financing capital improvements, we will require SoCalWater to complete the 15-year main replacement program beginning 1992.

Relief from High Rates

In addition to the service problems, the customers in the Desert District pay high rates. The primary cause of high rates in the Desert District is that the district is 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.

D.89-01-043 ordered SoCalWater to consider the following Branch-recommended remedies to alleviate the problem of high rates in the district:

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 public agencies.
4. Using the gain on sale of the La Quinta service area of the Desert District for improving the Morongo Valley and Victorville service areas.

Institution of Connection Fee

The Commission sets rates for water utilities based on unique circumstances associated with each utility's system(s). Water rates are designed to recover the fixed costs and variable costs incurred in providing service to the customers. Fixed costs are expenses which do not vary with consumption. They include maintenance expenses, administrative and general expenses such as customer accounts and rent, property taxes, depreciation expense, and a return on investment. Fixed costs are partially recovered through a service charge which the customers pay whether or not they use any water. Variable costs are those costs which are dependent on consumption. They include expenses for purchased power, purchased water, chemicals, income taxes, and uncollectibles. Variable costs are usually recovered from commodity rates.

The Commission's water utility rate design policy, established in D.86-05-064, requires that service charges be set to recover up to 50% of fixed costs. The policy also limits the number of commodity blocks to three, permits seasonal rates in resort areas, and requires lifeline rates to be phased out. ✓

Public water agencies or local community service districts set their rates in different ways. Local governments generate capital through large "connection fees" charged for making a new connection. They do not earn a return on their investments, nor do they pay income taxes. They may obtain governmental grant funds for system improvement. For these reasons, their rates can be lower than those of private utilities.

The Commission's General Order (GO) 103 does not allow its regulated water utilities to charge connection fees to its new customers. The main extension rules for water utilities allow the first 50 feet of an extension for a new connection to be installed by the utility without any charge. The customer requesting the new connection is charged for extensions over 50 feet. The main

extension rules also allow the financing of extensions through contributions in aid of construction and advances for construction.

While the main extension rules allow recovery of a portion of extension costs, they do not cover the costs of system improvements needed to serve the newly connected customers. A connection fee charged for a new connection can be used to fund needed improvements in the system. SoCalWater favors the institution of such fees for new connections. Branch is not totally opposed to the idea of charging connection fees. However, Branch believes that authorization of a connection fee would be a major deviation from GO 103, the main extension rules, and a longstanding regulatory policy. According to Branch, since this matter needs thorough investigation by the water utilities, the California Water Association (CWA), the building industry, local government, and from both water utilities and financial branches of Commission staff, it is propitious to combine consideration of the revision of GO 103 and the main extension rules into one proceeding. Branch recommends that the Commission issue an Order Instituting Rulemaking (OIR) into the need for a revision of GO 103 and the main extension rules to include the authorization of connection fees. ✓

In addition to SoCalWater and Branch, CWA provided testimony regarding connection fees. CWA favors Branch's proposal to institute a rulemaking proceeding to revise GO 103 and main extension rules to allow utilities to charge connection fees. However, CWA believes that unless the OIR is limited to the issue of connection fees, it will take three to four years to process the OIR. Therefore, CWA recommends that SoCalWater be authorized to charge a connection fee on a trial basis until the OIR proceeding is completed.

Discussion

The main extension rules which prohibit collection of connection fees were adopted over 30 years ago. Since the adoption of those rules, water utilities have undergone changes in economics, regulation, water quality, risk, and other factors which have caused financial hardships on some utilities and have often resulted in high rates. In addition, recent changes in tax laws have made customer advances and contribution in aid of construction less desirable since both are taxed. Many utilities are in a situation where the cost of adding new customers exceeds the marginal revenues received. The authorization of connection fees would be an appropriate source of revenue to help utilities to finance the additional plant needed to serve new customers. We should consider a revision of GO 103 and the main extension rules to allow collection of connection fees.

Next, we will consider Branch's proposal to institute a rulemaking proceeding. While we perceive, based on the record in this proceeding, the institution of a connection fee as an appropriate method of funding additional plant to serve new customers, we agree with Branch that such authorization would be a major deviation from GO 103 and the main extension rules. We believe that well-crafted guidelines will be needed to implement such changes. There may be opposition to imposition of connection fees by parties who would pay the charges. We believe that a suitable forum should be provided to all affected parties to make their view known to the Commission before a final decision is made. An OIR will provide such a forum. Accordingly, we will direct the Executive Director to prepare an OIR to consider revising GO 103 and the main extension rules to allow utilities to collect service connection fees.

Turning to the present need for relief from high rates in the Desert District, we believe that an OIR to revise GO 103 and the main extension rules will not provide immediate relief to these ratepayers. Considering the fact that it took approximately four years to complete the last proceeding to revise the main extension

rules, we need to find an alternate method to provide the Desert District ratepayers the needed relief from high rates. We believe that CWA's proposal to make an exception and allow SoCalWater to charge a connection fee for new connections on a trial basis would provide the necessary relief and reduce the rate increase under consideration. In addition, using the Desert District as a test case would provide useful data for the rulemaking proceeding.

In addition to providing useful data, the imposition of connection fees will be an equitable way to finance the additional plant needed to serve the new customers. We realize that authorization of connection fees, even for a single district, will be a deviation from the requirements of GO 103 and the main extension rules. However, since we are exploring every possible way to minimize the rate increase in the district and since the issue was thoroughly explored in this proceeding, we believe that such action is warranted. Accordingly, we will make an exception to the main extension rules and authorize SoCalWater to charge a connection fee for making a connection in its Desert District on a trial basis until the Commission issues an order in the proposed OIR.

Since we expect the Desert District to provide useful data regarding the effects of charging connect fees on customer growth, we will require SoCalWater to provide information regarding its new connections by meter sites and the corresponding amount of connection fees collected. This information will be filed with SoCalWater's annual report beginning in 1991.

Amount of Connection Fee

Having authorized connection fees, we must establish the amount to be charged. The amount of connection fee charged should be based on the additional plant needed to serve the new customer. A precise determination of the cost of additional plant needed to serve each new customer is very difficult, if not impossible. Therefore, both SoCalWater and Branch based their recommended

charges for connection fees on a close approximation of cost of plant per customer. SoCalWater's calculation of connection fees is based on the Desert District's weighted average rate base. Branch developed separate connection fee charges for the Morongo Valley and Victorville service areas. Branch's calculation is based on planned plant additions over the next six years. The following tables show the calculations for connection fee charges for SoCalWater and Branch:

SoCalWater's Calculation of Connection Fees

<u>Line</u>	<u>Item</u>	
1	Desert District Rate Base for 1988	= \$ 3,550,137.00
2	Desert District Rate Base for 1989 using a 5% inflation factor (Line 1 x 1.05)	= \$ 3,727,644.00
3	Water supply provided to customers	= 449,484 Ccf
4	Average Rate Base per Ccf of water production (Line 2 ÷ Line 3)	= \$ 8.29
5	Average annual use by a typical residual customer (5/8 x 3/4-inch meter)	= 120 Ccf
6	Rate Base for serving a customer with 5/8 x 3/4-inch meter (Line 4 x Line 5)	= \$ 994.80
7	Proposed connection fee using a 24.6% income tax gross-up factor (see note below)	= \$ 1,239.52
8	Connection fee rounded to the nearest \$50	= \$ 1,250.00

Note: The service connection fee would be considered a contribution in aid of construction and would be subject to an income tax gross-up factor.

SoCalWater developed the following connection fees for larger meters by comparing their flow rates to that of a 5/8 x 3/4-inch meter.

Meter Size	Specified Maximum Flow Rate		Capital Facilities Charge	Income Tax Gross-up @ 24.6%	Total Charges	Rounded to nearest \$ 50
	Flow (gpm)	Ratio to a 5/8x3/4" Meter				
5/8x3/4"	20	1.0	\$ 994.80	\$ 244.72	\$ 1,239.52	\$ 1,250
3/4"	30	1.5	1,492.20	367.08	1,859.28	1,850
1"	50	2.5	2,487.00	611.80	3,098.80	3,100
1-1/2"	100	5.0	4,974.00	1,238.60	6,197.60	6,200
2"	160	8.0	7,958.40	1,957.77	9,916.17	9,900
3"	320	16.0	15,916.80	3,915.53	19,832.33	19,800
4"	500	25.0	24,870.00	6,118.02	30,988.02	31,000

Over 4" (Determined on the same basis, but subject to available capacity.)

Branch's Calculations for Connection Fees
Morongo Valley Service Area

<u>Line</u>	<u>Item</u>		
1	1990 through 1995 - six-year average customers	=	948
2	Additional customers to be served from 1990 to 1995	=	100
3	New facilities: 0.20 MG reservoir, chlorinates, and chlorine building	= \$	175,000.00
4	Cost of new facilities/additional customers (Line 3 ÷ Line 2)	= \$	1,750/cust.
5	Six-year average yearly 3,600 ft. main replacements	= \$	154,283
6	Average yearly main replacements/average customer (Line 5 ÷ Line 1)	= \$	163/cust.
7	Total cost for adding a new customer (Line 4 + Line 6)	= \$	1,913/cust.
8	Proposed connection fee using a 24.6% income tax gross-up factor	= \$	2,383.60
9	Connection fee rounded to the nearest \$50	= \$	2,400.00

Victorville Service Area

<u>Line</u>	<u>Item</u>		
1	1990 through 1995, six-year	=	2,474
2	Additional customers to be served from 1990 to 1995	=	663
3	New facilities ²	=	\$1,662,300.00
4	Cost of new facilities/additional customer (Line 3 ÷ Line 2)	=	\$ 2,507/cust.
5	Average yearly 16,750 ft. main replacements	=	\$ 632,425.00
6	Average yearly main replacements/ avg. custs. (Line 5 ÷ Line 1)	=	\$ 256/cust.
7	Total cost for adding a new customer (Line 4 + Line 6)	=	\$ 2,763/cust.
8	Proposed connection fee using a 24.6% income tax gross-up factor	=	\$ 3,442.70
9	Connection fee rounded to the nearest \$50	=	\$ 3,450.00

Branch's proposed connection fees are applicable to all customers regardless of meter size.

2 8000' of 12" main to connect Victorville #1 and Victorville #4, land for reservoir site--Victorville #5, chlorine building and chlorinator--Victorville #5, 6600' of 12" transmission main from Mohawk plant to Victorville #1 and Victorville #4, 0.5 million gallon (MG) reservoir--Victorville #5, 3400' of 12" transmission main, enlarge capacity of Mohawk #2 well, enlarge booster capacity at Mohawk plant, well--Victorville #5, Land--Victorville #6, 0.3 MG reservoir--Victorville #6, 1300' of 12" transmission main, 0.15 MG reservoir booster--Victorville #3.

Discussion

Both SoCalWater and Branch have made very good attempts to determine the correct charges for connection fees. However, both methods have flaws. Branch, in its calculations, assumes that costs for all new facilities and system improvements for next six years are the costs associated with serving new customers. Clearly, this is not the case because most system improvements and new facilities in the Desert District are needed to improve the existing poor service. SoCalWater, on the other hand, does not distinguish between the embedded cost of plant and the costs for new facilities and improvements.

It is difficult to determine the precise cost of additional plant needed to serve a new customer. We expect to develop a procedure to calculate charges for connection fees in the proposed OIR. In the meantime, we will use the SoCalWater's proposed charges for connection fees. We adopt SoCalWater's charges because, unlike Branch, SoCalWater assumes that future plant additions and improvements in the Desert District would benefit both existing and new customers. In addition, since SoCalWater's connection fees are proportional to the meter size, they more closely approximate the cost of serving the new customer.

Service Availability Charge

Water is a valuable commodity in the high desert area served by SoCalWater's Desert District. The value of land (including empty lots) in a developed area is enhanced when water service is available. An availability charge to undeveloped or developed parcels of land would give recognition to their added value due to the availability of water service for domestic usage and fire protection. Currently, owners of lots pay nothing for the added value. The price is paid by current water customers. Therefore, Branch recommends that SoCalWater explore the possibility of imposing a "Service Availability Charge" (SAC) to all undeveloped and developed parcels of land.

SoCalWater believes that assessment of a SAC is a reasonable method to raise capital for needed improvements. According to SoCalWater, authority for assessment of property owners for special improvement projects could possibly be based on the 1911 Streets and Highways Act and the Mello-Roos Community Facilities Act (Govt. Code § 53331). The procedural information for such assessment could be derived from the California Government Code § 38743 and California Water Code §§ 72000-74902 (Formation of Improvement Districts).

SoCalWater opines that privately held public utilities regulated by the Commission are precluded from directly obtaining funding under these laws and codes. However, it may be possible to obtain indirect funding if local governmental agencies, which are covered under the laws and codes, choose to assess property owners and then contribute those funds for projects for the public good. One such project could be the 15-year main replacement and fire hydrant programs in the Morongo Valley and Victorville systems. The purpose of a SAC to assist in funding main replacement and fire hydrant programs is to assure adequate fire flow standards and to help safeguard against a moratorium limiting future development.

Although Branch's recommendation refers only to a SAC for "empty lots," SoCalWater believes that if an assessment could be enacted, it would be unlawful to discriminate by singling out a specific consumer class. Therefore, the capital costs necessary to complete the Main Replacement and Fire Hydrant Programs would need to be distributed evenly over a 15-year period by means of SAC assessment to every property owner in SoCalWater's established service territory in the Desert District where water service is available.

According to SoCalWater, all Desert District property owners could ultimately benefit from such a charge. This includes existing and future customers. It also includes owners of both undeveloped and developed parcels of land who are not customers of

record but are dependent upon and benefiting from SoCalWater's mains and hydrants for fire protection and future development of their property. While the costs associated with main replacements and fire hydrants for fire protection for the entire service area are included in rates and currently borne by existing customers, the owners of parcels of land where water service has not been established essentially are receiving fire protection and future development benefits at no cost. An Availability Charge would share that cost burden among all who would ultimately benefit.

Further justification for a SAC is that the utility incurs a number of costs regardless of whether or not direct service is being rendered. Under certain circumstances, it may be reasonable to charge for simply having service available to a potential customer's property although for some reason the service is not being used. Currently, there are some county-operated water districts or mutually owned water districts that charge for water service to property owners within their service territories whether the property owners use the water service or not.

SoCalWater believes that existing customers could expect an immediate benefit because the contribution would offset additions to utility plant for capital costs for main replacements and fire hydrants thereby reducing the revenue requirement and associated increase in rates for the identified projects.

If the local governmental agencies elected to enact the funding assessment, SoCalWater believes the following steps would be necessary:

- o City council, or in unincorporated territory a community services or development district, must adopt a resolution of intention.
- o At least one, possibly two, public hearings must be held to gain public input.
- o If, at public hearings, more than 10% of the electorate disagree with the proposal, a general election must be held.

Procedures for assessing, collecting, and contributing funds could include the following:

- o A SAC would be assessed annually to all property owners within the established service area of SoCalWater. The assessment would be itemized and collected along with other property taxes.
- o A SAC assessed and collected would be held in escrow until such time as SoCalWater billed the governmental agency for funds necessary to cover the cost of identified main replacements fire hydrants.
- o First-year costs would be calculated by dividing the total program cost per year, estimated in 1989 dollars, by the total number of parcels in the assessors books within SoCalWater's service area.

SoCalWater believes that such contribution in aid of construction received from local governments may be exempt from income tax gross-up. However, SoCalWater believes that a ruling by the Internal Revenue Service will be necessary for such exemption.

Branch agrees with SoCalWater's proposal to have a local governmental agency assess and collect the SAC. Branch also agrees with SoCalWater's concept for contributing funds to the utility. However, Branch disagrees with SoCalWater that local governmental agency would be subject to income tax gross-up at 24.6%. It is Branch's opinion that the contributions by government agencies for the purpose of public benefit are exempt from tax and therefore not subject to gross-up.

Discussion

Since the Commission has no jurisdiction in the assessment, collection and use of a SAC, we encourage SoCalWater to present the SAC concept to local ratepayers, property owners, and governmental agencies and work closely with those parties to promote the idea that the SAC cost per property owners is small but that it will benefit the local residents and the fire department.

We also encourage SoCalWater to invite the local fire departments to participate in the initial facility planning and present the SoCalWater and fire departments joint master plan to the public to win support of the SAC concept.

Condemnation of the Water Systems by Public Agencies

A water system owned and operated by a public agency does not pay taxes and does not earn a rate of return on its investments. Moreover, a public agency can generate capital by issuing tax-free bonds at attractive rates and by charging large connection fees. Therefore, condemnation and acquisition of a water utility by a public agency is a possible way of lowering rates to customers. Branch had recommended that SoCalWater explore this option for the Desert District.

The condemnation of a water system by a public agency is a matter between the utility and the agency involved. It is not within the Commission's jurisdiction unless application is made to set just compensation for the utility. Therefore, the testimony presented on this alternative was intended mainly to educate the ratepayers in attendance regarding the advantages and disadvantages of condemnation.

SoCalWater's policy regarding condemnation is to provide the public agency a tour and maps of the system and await formal action by the agency.

Turning to the interest of a public agency in acquiring the Desert District, we note that the Morongo Valley Community Services District (MVCSD) is considering the acquisition of the Morongo system. No entity has shown interest in acquiring the Victorville system. MVCSD is conducting feasibility studies regarding acquisition to determine if condemnation is possible given the resources of the community. It was evident during the hearing that a segment of the community opposes condemnation.

As to rate relief resulting from proposed condemnation by MVCSD, SoCalWater states that although the precise impact of such acquisition on rates cannot be determined without specific details, the acquisition does not offer much hope for relief. Branch agrees with SoCalWater's assessment.

Discussion

The condemnation of water systems by a public agency is a matter between the utility and the agency. The public agency involved has to propose such condemnation and the terms of acquisition have to be resolved between the utility and the public agency. We expect SoCalWater to cooperate fully with MVCSD in its efforts to acquire the Morongo system.

Using the Gain on Sale of the La Quinta System to Improve the Victorville and Morongo Valley Service Areas

The La Quinta service area was the third service area of the Desert District. The Coachella Valley Water District condemned and acquired the La Quinta service area. The Riverside County court issued final judgment on the sale in December 1987. The gain on sale over book value was \$900,000. Branch recommended using the proceeds from gain to improve the Victorville and Morongo Valley service areas.

In a related matter, the Commission on November 23, 1988 issued Order Instituting Rulemaking (R.) 88-11-041 to consider the proper disposition of gain on sale of utility property when:

- a. The property sold comprises a distribution system.
- b. The distribution system consists of an entire utility operating system (system) within a geographically defined area.
- c. The components of the system are or have been included in the rate base of the utility.

- d. The sale of the system is concurrent with the utility being relieved of and the municipality or other public agency assuming the public utility obligations to the customers within the area served by the system.

In its report SoCalWater stated that the consideration of the treatment of the gain on sale of the La Quinta system meets the criteria stated above. Therefore, SoCalWater requests that the treatment of gain on sale be in accordance with the decision in R.88-11-041. Branch agrees with SoCalWater's proposal.

On July 6, 1989, the Commission issued D.89-07-016 in R.88-11-041. Ordering Paragraphs 2 and 3 of D.89-07-016 require that:

- "2. The capital gain or loss, net of costs of sales, realized from the sale of a distribution system, under the circumstances described in Ordering Paragraph 1, shall accrue to the utility and its shareholders to the extent that (1) the remaining ratepayers on the selling utility's system are not adversely affected, and (2) the ratepayers have not contributed capital to the distribution system.
- "3. All proceedings in which the issue of the disposition of the gain on sale of a distribution system, as defined in this rulemaking, has been reserved, shall be disposed of in accordance with the findings, conclusions, and order of this decision."

Since the La Quinta system (1) was operated separately from the other two systems of the Desert District, (2) was not interconnected with the other systems, (3) was separately tariffed, and (4) was a relatively small part of the overall SoCal Water utility system, the remaining customers on the SoCalWater system will not suffer appreciable harm from the sale. Also, a review of SoCalWater's annual reports for 1985 and 1986 indicates that SoCalWater raised its capital through the traditional debt and

equity method and that there was no customer-financed plant. Therefore, the sale of the La Quinta system meets the two criteria to allow the gain on sale to accrue to the stockholders. We will not adopt the proposal by Branch as a means to reduce the rates in the Morongo Valley and Victorville service areas.

Results of Operations

D.89-01-043 included the 1989 and 1990 adopted and authorized results of operations for the Desert District.

This order modifies the adopted and authorized results of operation in D.89-01-043 to reflect the following changes:

1. Allowance for an additional full-time employee in the Morongo Valley service area.
2. Allowance for two new trucks in each of the two service areas.
3. Reduction in revenue requirements estimated connection charges.

Table 1 shows the Desert District authorized results of operations for 1989 and 1990.

It should be noted that SoCalWater revised its 1989, 1990, and 1991 construction budgets without altering the total expenses for plant additions and improvements. Therefore, the changes in rate base are due to the effect of connection fees.

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

Timing of Rate Change

This decision will not be issued until February 1990. Consequently, the Desert District's rate of return for the 12-month period ending September 30, 1989 will not exceed the authorized rate of return of 10.91% for 1989. Therefore, we will waive the requirement to demonstrate the need for the step increase in 1990 and will authorize the 1990 rates to go into effect on the effective date of this order.

TABLE 1

Southern California Water Company
Desert DistrictSUMMARY OF EARNINGS
(Dollars in Thousands)

<u>At Authorized Rates</u>	<u>1989</u>	<u>1990</u>
Operating Revenues	\$1,530.4	\$1,674.6
<u>Operating Expenses</u>		
Purchased Power	165.2	176.9
Purchased Water	0.0	0.0
Purchased Chemical	1.0	1.2
Pump Tax	0.0	0.0
Payroll - District	288.3	302.3
Other O&M	119.8	137.3
Other A&G and Misc.	83.3	85.7
Business License	0.0	0.0
Ad Valorem Taxes - District	15.2	17.7
Payroll Taxes - District	21.9	23.2
Depreciation	114.3	130.2
General Office Allocation	57.2	61.2
Uncollectible	4.6	5.0
Business License	8.0	8.8
Subtotal	764.5	819.3
Net Before Taxes	651.3	724.9
Income Taxes	204.8	232.6
Total Operating Expenses	1,083.6	1,182.1
Net Revenue	446.8	492.5
Rate Base	4,096.1	4,499.2
Rate of Return	10.91%	10.95%

Comments on ALJ's Proposed Decision

The ALJ's proposed decision was filed and mailed to the parties on December 29, 1989. SoCalWater, Branch, and the Morongo Valley Community Services District (Morongo) filed comments on the proposed decision. After reviewing the proposed decision we have corrected the clerical and technical errors. Other than correcting the errors, we address Morongo's contention that the proposed authorization of a connection fee for the Desert District is in violation of the California Environmental Quality Act (CEQA), Public Resources Code §§ 21000 et seq., because it has not been preceded by any environmental analysis.

In its comments, Morongo contends that the whole purpose of a connection fee is to expand the system, whether within or beyond the existing system boundaries. Morongo opines that the Commission is attempting through the proposed decision to accommodate growth and thereby potentially impacting scarce groundwater and other environmental resources without an Environmental Impact Report (EIR).

Morongo also contends that Public Resources Code § 21080 (b)(8) and the implementing CEQA Guidelines (§ 15273), exempt ratemaking from CEQA compliance only in limited circumstances that are not applicable here. According to Morongo, since the proposed connection fee is in fact a rate increase to fund capital projects for the expansion of the system, it is subject to CEQA guidelines. Therefore, Morongo requests that the proposed decision should require an EIR before the institution of a connection fee.

We believe that the proposed connection fee does not require an EIR under CEQA for the following reasons:

1. The Institution of Connection Fee
Does Not Constitute a Project

CEQA requires the Commission to formally consider the environmental impacts of certain "projects" before approving them (Pub. Res. Code § 21002, CEQA Guidelines §§ 15004). The statute

defines "project" to include (a) activities subsidized by a public agency, or (b) activities "involving the issuance to a person of a lease, permit, license, certificate, or other entitlement for use" by the agency (Pub. Res. Code § 21065(b)-(c), CEQA Guidelines § 15378).

The initiation of a connection fee for new hookups does not constitute a project under this definition. The Commission is not subsidizing the construction, and the proposed ratemaking change does not constitute a "lease, permit, license, certificate, or other entitlement for use." According to PU Code § 1001, a water utility may expand its system by construction of new mains, reservoirs, and hookups to most sets of new customers without obtaining additional Commission authorization (barring a specific Commission order to the contrary). Thus, the proposed ratemaking change does not give the applicant utility a right which it did not already possess to construct new plant. That authorization had already been given the utility by PU Code § 1001 and the Commission's decision granting the utility a certificate of public convenience and necessity.

2. The Commission's Action Does Not Illegally
Exempt New Development from CEQA

The new projects for which developers will seek new hookups will be subject to local zoning laws and building codes. To the extent that local review of this development involves discretionary local action, such local action is subject to CEQA and the local agency will have to prepare either a Negative Declaration or an EIR (CEQA Guidelines § 15357). To the extent that the new development will require construction of new water mains, the impacts of those mains should be considered in the environmental documentation reviewed and considered by the local agency.

In addition, the proposed decision would change the formulas for allocating costs for new connections between existing customers and new customers. Such a change can be, and is being, made without consideration of what specific construction may be done under the formula (making the creation of an EIR a highly speculative event, at best). The Commission decision is a rate design decision, not a decision authorizing particular construction. The Commission has generally held that ratemaking proceedings do not constitute a "project" within the meaning of CEQA. We will deny Morongo's request to modify the decision.

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 rates in its Bear Valley Electric District.

2. On January 27, 1989, the Commission issued D.89-01-043 which authorized rate increases for all other districts except the Desert District.

3. D.89-01-043, while adopting a summary of earnings for the Desert District, deferred the rate revision for the district and ordered further hearings to address the problem of poor service and high rates in the district.

4. D.89-01-043 authorized 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 was a constant 12%.

5. During the hearings, SoCalWater presented revised capital improvement plans for 1989, 1990, and 1991 to improve the service in the Desert District.

6. Branch recommends that SoCalWater's proposed capital improvement plans be adopted.

7. After completion of the capital improvement programs in 1991, there will be 251,400 feet of old and deteriorating steel mains remaining in the Victorville service area.

8. SoCalWater will have to replace an average of 16,750 feet per year of steel mains over a 15-year period beginning 1992 to complete the main replacement in the Victorville service area at a cost of \$500,000 per year.

9. Branch recommends that SoCalWater be ordered to complete the 15-year main replacement program.

10. SoCalWater requests that the 15-year main replacement program be required only if the Commission adopts an alternate method of financing capital improvements.

11. This order adopts an alternative method of financing of capital improvements through the imposition of a service connection charge.

12. In February 1989, SoCalWater hired an additional employee for the Morongo Valley service area.

13. Branch recommends that rates adopted in this order reflect the new employee in the Morongo Valley service area working half-time.

14. Even with the new employee working full time, employees in the Morongo Valley service area had to work overtime.

15. The new employee needs to work full time during this rate case cycle.

16. SoCalWater proposes to purchase an additional truck for each of the two service areas in the Desert District.

17. Branch opposes the request for two additional trucks.

18. SoCalWater's requested additional trucks will provide a truck to each service person.

19. The tasks performed by a water utility service person usually involve one person.

20. One truck per service person is necessitated by the possibility of one vehicle being out of service from time to time.

21. The Commission's GO 103 and main extension rules do not allow regulated water utilities to charge connection fees.

22. The rules which prohibit water utilities to charge connection fees were adopted over 30 years ago.

23. Since the adoption of the rules prohibiting connection charges, economics, risks, and regulation have changed for water utilities.

24. Water utilities may need an alternate method for making capital improvements needed to serve new customers.

25. Collection of service charge could provide an appropriate source of funds to help utilities to finance the plant improvements needed to serve the new customers.

26. GO 103 and the main extension rules would have to be revised to allow utilities to charge connection fees.

27. An OIR will be an appropriate way to consider revising GO 103 and the main extension rules to allow utilities to charge connection fees.

28. CWA proposes that the Commission make an exception to existing rules and allow SoCalWater to charge a connection fee to new customers in the Desert District on a trial basis.

29. Authorization of connection fee on a trial basis in the Desert District would provide the needed relief from high rates and would provide useful data for the rulemaking proceeding to consider revising GO 103.

30. Branch and SoCalWater propose different charges for connection fees.

31. Branch in its calculation for connection charges, assumes that costs of all new facilities and system improvements are the costs associated with serving new customers.

32. SoCalWater in its calculation, assumes that plant additions and improvements will benefit both existing and new customers.

33. The Desert District's plant additions and improvements will benefit both existing and new customers.

34. SoCalWater's proposed connection charges will more closely approximate the cost of serving the customers than the charges proposed by Branch.

Conclusions of Law

1. SoCalWater's revised plans for capital improvements should be adopted.
2. SoCalWater should file a revised service area map of the Victorville service area to reflect the capital improvements.
3. SoCalWater should complete the 15-year main replacement program for the Victorville service area beginning in 1992.
4. The new employee in the Morongo Valley service area should be authorized on a full-time basis.
5. SoCalWater's proposal for two additional trucks should be adopted.
6. An OIR should be instituted to consider revising GO 103 and the main extension rules to allow water utilities to charge connection fees.
7. SoCalWater should be authorized to charge connection fees in the Desert District on a trial basis until the Commission issues its order in the proposed OIR.
8. SoCalWater should provide, with its annual report, information regarding new connections by meter size and the corresponding connection fees collected for its Desert District.
9. SoCalWater's proposed connection charges should be adopted.
10. The application should be granted to the extent provided by the following order.
11. 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 tariff schedules for its Desert District 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, 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 the Desert District 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 Commission Advisory Compliance Division's (CACD) 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 rates, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

3. Within 120 days from the effective date of this order, the Executive Director shall prepare for the Commission's consideration an Order Instituting Rulemaking (OIR) to revise GO 103 and the main extension rules for water utilities to allow water utilities to charge connection fees for new customers.

4. SoCalWater is authorized to charge a connection fee to new customers in its Desert District. The rate schedules included in Appendices A and B shall include charges for connection fees.

5. The authorization to charge connection fee shall be in effect until the Commission issues a decision in the OIR.

6. SoCalWater shall provide information regarding the new connections by meter size and the corresponding connection fees collected for the Desert District. The information shall be filed with SoCalWater's annual report beginning the report for 1990.

7. SoCalWater shall file a revised service area map to reflect the capital improvements.

8. This proceeding is closed.

This order is effective today.

Dated FEB 7 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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

Wesley Frankun

WESLEY FRANKUN, Acting Executive Director

AB

APPENDIX A

Page 1

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEM-1

Morongo Valley Tariff Area

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Morongo Valley and vicinity, San Bernardino County.

RATES

		Per Meter Per Month	
Quantity Rates:			
For all water delivered, per 100 cu.ft....	\$ 2.9284		(C)
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 24.70		(I)
For 3/4-inch meter	26.60		
For 1-inch meter	34.20		
For 1-1/2-inch meter	39.90		
For 2-inch meter	57.00		
For 3-inch meter	115.00		
For 4-inch meter	165.00		
For 6-inch meter	292.00		(I)

The service charge is applicable to all metered service.
It is a readiness-to-serve charge to which is added the
charge during the month computed at the Quantity Rates
for water used.

(T)
(T)SPECIAL CONDITIONS

1. Due to an undercollection in the Balancing Account, an amount of \$0.1314 per Ccf is to be added to the quantity rates above for thirty-six months from the effective date of this decision to amortize the undercollection. (I)
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX A
Page 2

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEM-2H

HAULAGE FLAT RATE SERVICE

APPLICABILITY

Applicable to water delivered from Company designated outlets for haulage by customers for domestic use.

TERRITORY

Morongo Valley and vicinity, San Bernardino County.

RATES

	<u>Per Month</u>	
For water delivered for domestic use only and when hauled by the customer.....	\$ 12.70	(I)

SPECIAL CONDITIONS

1. Each customer desiring to obtain water under this schedule must make an application for service to the utility.
2. Service under this schedule will be furnished only from Company designated outlets specified for haulage service consisting of 3/4-inch hose bib with garden hose fitting located in Morongo Valley as follows:

West side of Bella Vista Drive 400 feet north of Canyon Road.

Northwest corner of Park Avenue and Cholla Avenue.

East side of Hess Boulevard 100 feet north of Paradise Avenue.
3. Due to an undercollection in the balancing account, an amount of \$0.1314 is to be added to the monthly rate shown above thirty-six months from the effective date of this thirty six months from the effective date of this decision to amortize the undercollection. (I)
(C)
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)

APPENDIX A
Page 3

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEV-1

Victorville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The vicinity of Victorville and Lucerne, San Bernardino County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
For all water delivered, per 100 cu.ft....	\$ 1.6993	(I)
 Service Charge:		
For 5/8 x 3/4-inch meter	\$ 10.30	(I)
For 3/4-inch meter	14.25	
For 1-inch meter	17.10	
For 1-1/2-inch meter	21.85	
For 2-inch meter	32.30	
For 3-inch meter	59.00	
For 4-inch meter	90.00	
For 6-inch meter	154.00	(I)

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge during the month computed at the Quantity Rates for water used.

(T)
(T)

SPECIAL CONDITIONS

1. Water supplied in the territory comprising a portion of Section 16, Township 4 North, Range 2 West, San Bernardino Base and Meridian, located 15 miles southeasterly of Victorville, San Bernardino County, is of high fluoride content.

(Continued)

APPENDIX A
Page 4


SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEV-1
(Continued)

Victorville Tariff Area

GENERAL METERED SERVICE

SPECIAL CONDITIONS

2. Due to an undercollection in the balancing account, an amount of \$0.1314 per Ccf is to be added to the amount shown above for thirty-six months from the effective date of this decision to amortize the undercollection. (I)
 3. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(L)
- 

APPENDIX A
Page 5

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEM-SC

Morongo Valley Tariff Area

SERVICE CONNECTION FEESAPPLICABILITY

Applicable to all applicants requesting new service line and meter connection to the existing distribution system, not including the restoration of services which were previously disconnected.

TERRITORY

The Morongo Valley and vicinity, San Bernardino County.

RATES

Connection Charge:	<u>Per Meter</u>
For 5/8 x 3/4-inch meter	\$ 1,250
For 3/4-inch meter	1,850
For 1-inch meter	3,100
For 1-1/2-inch meter	6,200
For 2-inch meter	9,900
For 3-inch meter	19,800
For 4-inch meter	31,000

SPECIAL CONDITIONS

1. Service connection fees are to be considered as Contribution-in-Aid-of-Construction and will be applied as a reduction to rate base to offset cost of capital expenditures for facilities necessitated by the addition of new customers to the existing system.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(N)

(N)

(T)

(T)

APPENDIX A
Page 6

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Schedule No. DEV-SC

(N)

Victorville Tariff Area

SERVICE CONNECTION FEESAPPLICABILITY

Applicable to all applicants requesting new service line and water connection to the existing distribution system, not including the restoration of services which were previously disconnected.

TERRITORY

The vicinity of Victorville and Lucerne, San Bernardino County.

RATES

Connection Charge:	Per Meter
For 5/8 x 3/4-inch meter	\$ 1,250
For 3/4-inch meter	1,850
For 1-inch meter	3,100
For 1-1/2-inch meter	6,200
For 2-inch meter	9,900
For 3-inch meter	19,800
For 4-inch meter	31,000

SPECIAL CONDITIONS

1. Service connection fees are to be considered as Contribution-in-Aid-of-Construction and will be applied as a reduction to rate base to offset cost of capital expenditures for facilities necessitated by the addition of new customers to the existing system.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(N)

(T)

(T)

(END OF APPENDIX A)

APPENDIX B
Page 1

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Morongo Valley Tariff Area

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
1-1-91

SCHEDULE DEM-1

Quantity Rates

For all water delivered, per 100 cu.ft.... 0.0626

Service Charge:

For 5/8 x 3/4-inch meter.....	\$0.55
For 3/4-inch meter.....	1.40
For 1-inch meter.....	1.30
For 1-1/2-inch meter.....	2.15
For 2-inch meter.....	3.00
For 3-inch meter.....	5.00
For 4-inch meter.....	5.00
For 6-inch meter.....	7.00

SCHEDULE DEM-2H

For water delivered for domestic use only
and when hauled by the customer..... \$ 2.00

APPENDIX B
Page 2

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Victorville Tariff Area

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
1-1-91

SCHEDULE DEV-1

Quantity Rates

For all water delivered, per 100 cu.ft.....	0.0376
---	--------

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 0.20
For 3/4-inch meter.....	0.65
For 1-inch meter.....	0.60
For 1 1/2-inch meter.....	0.50
For 2-inch meter.....	0.25
For 3-inch meter.....	0.50
For 4-inch meter.....	4.00
For 6-inch meter.....	2.00

(END OF APPENDIX B)

APPENDIX C
Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Desert District

ADOPTED QUANTITIES

Name of Company: Southern California Water Company

District: Desert

- | | |
|-----------------------------|--------|
| 1. Net-to-Gross Multiplier: | 1.6844 |
| 2. Federal Tax Rate: | 34% |
| 3. State Tax Rate: | 9.3% |
| 4. Local Franchise Rate: | 0.524% |
| 5. Uncollectible Rate: | 0.3% |

<u>Offsettable Items</u>		<u>Test Years</u>	
		<u>1989</u>	<u>1990</u>
6. <u>Purchased Power</u>			
A. Supplier - Southern California Edison Co. (effective 7/1/89)			
B. Ccf/kWh - Electric Pump Electric Boosters		1.157	1.157
C. kWh (Total)		1,593,084	1,697,745
D. Average Cost/kWh		\$ 0.10370	\$ 0.10420
E. Total Cost of Power		165,200	176,900
7. Ad Valorem Taxes		15,200	17,700
8. <u>Number of Services - Meter Size</u>		<u>1989</u>	<u>1990</u>
5/8 x 3/4		3,007	3,241
3/4		-	-
1		117	122
1-1/2		9	9
2		18	19
3		4	4
4		1	1
6		-	-
Total		3,156	3,396
9. <u>Metered Water Sales</u>			
<u>Ccf</u>			
All usage		505,674	546,200

APPENDIX C
Page 2

SOUTHERN CALIFORNIA WATER COMPANY
Desert District

ADOPTED QUANTITIES

10. 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	3,146	3,386	496.1	536.7	157.7	158.5
Haulage-Flat rate	25	25	-	-	-	-
Public Authority	7	7	1.5	1.5	211.9	211.9
Resale	3	3	3.8	3.8	1,269.8	1,269.8
Other	<u>3</u>	<u>3</u>	<u>4.2</u>	<u>4.2</u>	<u>1,399.1</u>	<u>1,399.1</u>
Subtotal	3,184	3,424	505.6	546.2		
Private Fire Prot.	<u>1</u>	<u>1</u>				
Total	3,185	3,425				
Water Loss:	12.2%	10%	70.2	60.7		
Total Water Produced (KCcf)			575.8	606.9		
Pumped Water (KCcf)			575.8	606.9		
Purchased Water (KCcf)			0.0	0.0		

(END OF APPENDIX C)

APPENDIX D

SOUTHERN CALIFORNIA WATER COMPANY
Desert District

INCOME TAX CALCULATIONS

	1989 (Dollars in Thousands)	1990
Total Revenue	\$1,530.4	\$1,674.6
Purchased Power	165.2	176.9
Purchased Water	0.0	0.0
Purchased Chemical	1.0	1.2
Pump Tax	0.0	0.0
Payroll	288.3	302.3
Other O&M	119.8	137.3
Other A&G	83.3	85.7
Business License	0.0	0.0
Ad Valorem Taxes	15.2	17.7
Payroll Taxes	21.9	23.2
General Office Allocation	57.2	61.2
Uncollectible	4.6	5.0
Business License Tax	8.0	8.8
Subtotal	764.5	819.3
Interest	206.0	225.8
Total Deductions	970.5	1,045.1
State Tax Depreciation	222.3	283.3
State Tax @ 9.3%	31.4	32.2
Federal Tax Depreciation	20.4	10.1
Federal Tax @ 34%	173.4	199.7
Total Income Tax	204.8	232.6

(END OF APPENDIX D)

APPENDIX E
Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Desert District
Morongo Valley Tariff Area

Comparison of typical bills for residential metered customers of various usage level and average usage level at present and authorized rates for the year 1990 without balancing account amortization.

General Metered Service

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

Monthly Usage	At Present Rates	At Authorized Rates	Percent Increase
(Cubic Feet)			
300	\$ 24.95	\$ 33.49	34.2%
500	31.13	39.34	26.4
1,000 (Average)	46.57	53.98	15.9
2,000	77.46	83.27	7.5
3,000	108.35	112.55	3.9
4,000	139.24	141.84	1.9
5,000	170.13	171.12	0.6

APPENDIX E
Page 2

SOUTHERN CALIFORNIA WATER COMPANY - DESERT DISTRICT

Victorville Tariff Area

Comparison of typical bills for residential metered customers of various usage level and average usage level at present and authorized rates for the year 1990 without balancing account amortization.

General Metered Service

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

Monthly Usage	At Present Rates	At Authorized Rates	Percent Increase
(Cubic Feet)			
300	\$ 13.58	\$ 15.40	13.4%
500	16.56	18.80	13.5
1,000	24.02	27.29	13.6
1,400 (Average)	29.99	34.09	13.7
2,000	38.94	44.29	13.7
3,000	53.86	61.28	13.8
4,000	68.78	78.27	13.8
5,000	83.70	95.27	13.8

(END OF APPENDIX E)