

Decision 82 03 014 MAR 2 - 1982**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 of the SOUTHERN CALIFORNIA WATER)
 COMPANY for an order authorizing)
 it to increase the rates for water)
 service in its Arden-Cordova Dis-)
 trict, dba Arden Cordova Water)
 Service.)

Application 60792
 (Filed August 5, 1981)

O'Melveny & Myers, by Richard K. Smith,
Jr., Attorney at Law, for Southern
 California Water Company, applicant.
Philip Scott Weismehl, Attorney at Law,
 for the Commission staff.

O P I N I O N

Applicant Southern California Water Company seeks authority to increase rates for water service in its Arden-Cordova District. The rate increases proposed by applicant are in steps designed to increase annual revenues in 1981 by \$220,000, or 36.96%, over the revenues produced by rates in effect on April 30, 1981 (i.e., at the time the Notice of Intent was filed); in test year 1982 by \$72,500, or 8.66%, over revenues from rates proposed for 1981; in test year 1983 by \$109,100, or 11.89%, over revenues from rates proposed for 1982; and in year 1984 by \$75,400, or 7.24%, over revenues from rates proposed for 1983.

The foregoing proposed increases exclude the effects of the Economic Recovery Tax Act of 1981 (ERTA). In this connection applicant supplemented the information on this application provided in the notice of hearing mailed to its customers as follows:

"NOTE The increase in rates requested are further increased by a total of 18.2% in 1982 and 18.0% in 1983 to reflect 'The Economic Recovery Tax Act of 1981' signed into law on August 13, 1981."

The hearing in this matter was preceded by an informal public meeting held during the evening on August 27, 1981 at the Cordova Community Center. The meeting was sponsored by applicant and the Commission staff to provide customers an opportunity to express their views and to give applicant an opportunity to explain or respond to questions or complaints in an informal setting. Notice of this informal meeting was mailed to the customers. Only two customers attended. One of them complained of low water pressure and the other objected to the size of the rate increase requested. Applicant agreed to look into the pressure problem and report back to staff and the customer.

After due notice, public hearing was held in this matter before Administrative Law Judge Main on a consolidated record with Application (A.) 60799 (Santa Maria District) in Los Angeles on December 2, 1981. A.60799 will be decided in a separate order. This proceeding was submitted upon the filing of concurrent briefs due on or before December 31, 1981.

General Information

Applicant owns and operates water systems in 19 districts and an electric system in Big Bear Lake, California. Each district is a separate unit for operational, accounting, and ratemaking purposes. The districts are grouped into five divisions. The headquarters and general office is located in Los Angeles. Customers' bills for all districts are prepared

at the Los Angeles general office. Overall functions such as accounting, engineering, data processing, and purchasing are also centralized there.

As of December 31, 1980, statewide applicant was serving 231,671 customers and had 320 employees and an investment in utility plant of \$147,467,000. Gross operating revenue for the 12-month period ended December 31, 1980 was \$36,527,000. Applicant's approximately 2,000,000 shares of common stock are owned by more than 5,000 individual and institutional shareholders. Its preferred stock (200,400 shares in four series) is held by institutional investors.

Arden-Cordova District

The Arden-Cordova District is comprised of two water systems that are not physically interconnected. The Arden service area is located approximately six miles from the Cordova service area. Both service areas are located east of the City of Sacramento and are in county territory.

The district office is located in the Cordova service area and handles local business relating to customer contacts, applications for service, and complaints for both areas.

The area is mostly residential. Of the 8,552 customers served in the Arden-Cordova District as of December 31, 1980, approximately 99% were in the commercial classification which consists of residential and business customers. The water supply was obtained from 22 wells and from treated surface water. The latter is obtained from Folsom Dam via the Folsom-South Canal. As of December 31, 1980 there were

152,165 feet of distribution mains ranging in size from four inches to 24 inches in diameter and two one-million-gallon steel reservoirs. The historical cost of utility plant in service in the Arden-Cordova District at December 31, 1980 was \$5,412,262, and the depreciation reserve was \$1,097,532, yielding a net depreciated cost of \$4,314,730.

Service

In Chapter 12 of Exhibit 20 staff summarized the service complaints received by applicant as follows:

	<u>1980</u>	<u>Partial 1981 (Jan.-June)</u>
Water Quality	18	36
Pressure	11	5
Leaks	-	3
Billing	19	35
Miscellaneous	<u>30</u>	<u>10</u>
Total	78	89

Staff examined applicant's records on service complaints, inspected applicant's facilities, and participated in the August 27, 1981 informal meeting held in Arden-Cordova. In staff's opinion applicant is rendering satisfactory service in this district.

Water Conservation and Pump Efficiency

Applicant has an established program to promote water conservation. Currently, its efforts are directed primarily toward providing conservation reminders through inserts mailed with customers' bills and through newspaper advertisements.

Applicant also has an established program to maintain pump efficiencies. Staff reports that all "well pumps show above the average-fair efficiency rating. On most booster pumps, no adequate test section is available; however, these pumps are physically checked periodically by utility for excessive wear."

Present and Proposed Rates

Basic rates for the Arden-Cordova District were set by Decision (D.) 81176 dated March 26, 1973 in A.53512. Since then, the Commission has authorized (1) a rate increase to offset increases in purchased power costs and (2) a fire protection surcharge.

In this district flat rate water service predominates (i.e., it provides 77% of the revenues). All residential and most business customers are on flat rate service. All industrial and public authority customers are on metered service. Present rates for flat rate service are:

	<u>Arden Tariff Area</u> <u>(Schedule ACA-2)</u>		<u>Cordova Tariff Area</u> <u>(Schedule ACC-2)</u>	
	<u>Per Service Connection</u> <u>Per Month</u>	<u>Fire Protection Surcharge</u> <u>Per Service Connection</u> <u>Per Month</u>	<u>Per Service Connection</u> <u>Per Month</u>	<u>Fire Protection Surcharge</u> <u>Per Service Connection</u> <u>Per Month</u>
For a single unit of occupancy, including premises not exceeding 12,000 sq.ft. in area	\$3.55	\$0.14	\$4.55	\$0.13
For a duplex including premises not exceeding 12,000 sq.ft. in area	7.10	0.27	9.10	0.27
a. For each additional detached unit of occupancy on the same premises and served from the same service connection	1.85	0.06	1.85	0.06
b. For each swimming pool equipped with recirculating filter system, on the same premises and served from the same service connection	1.00	-	1.00	-

Proposed rates for flat rate service are:

	<u>Arden Tariff Area</u> <u>(Schedule ACA-2)</u>		
	<u>Per Service Connection</u> <u>Per Month</u>		
	<u>1982</u>	<u>1983</u>	<u>1984</u>
For a single unit of occupancy, including premises not exceeding 12,000 sq.ft. in area	\$ 6.00	\$ 7.00	\$ 7.75
For a duplex including premises not exceeding 12,000 sq.ft. in area	12.00	14.00	15.50
a. For each additional detached unit of occupancy on the same premises and served from the same service connection	3.50	4.00	4.00
b. For each swimming pool equipped with recirculating filter system, on the same premises and served from the same service connection	1.75	2.00	2.00

Cordova Tariff Area
(Schedule ACC-2)

	Per Service Connection Per Month		
	<u>1982</u>	<u>1983</u>	<u>1984</u>
For a single unit of occupancy, including premises not exceeding 12,000 sq.ft. in area	\$ 6.50	\$ 7.25	\$ 7.75
For a duplex, including premises not exceeding 12,000 sq.ft. in area	13.00	14.50	15.50
a. For each additional detached unit of occupancy on the same premises and served from the same service	3.50	4.00	4.00
b. For each swimming pool equipped with recirculating filter system, on the same premises and served from the same service connection	1.75	2.00	2.00

Under this proposal Schedules ACA-2 and ACC-2 in 1984 would have the same rates and be combined at that point into one common flat rate tariff schedule (Schedule AC-2). For metered service applicant proposes to consolidate the schedules for the Arden and Cordova tariff areas in 1982. The present and proposed rates for general metered service are as follows:

<u>Present Rates</u>	<u>Arden Tariff Area</u> <u>(Schedule ACA-1)</u>		<u>Cordova Tariff Area</u> <u>(Schedule ACC-1)</u>	
	<u>Per Meter</u> <u>Per Month</u>	<u>Fire Pro-</u> <u>tection</u> <u>Surcharge</u> <u>Per Meter</u> <u>Per Month</u>	<u>Per Meter</u> <u>Per Month</u>	<u>Fire Pro-</u> <u>tection</u> <u>Surcharge</u> <u>Per Meter</u> <u>Per Month</u>
Quantity Rates:				
First 5,000 cu.ft., per 100 cu.ft. .	\$ 0.161	-	\$ 0.161	-
Next 95,000 cu.ft., per 100 cu.ft. .	0.237	-	0.135	-
Over 100,000 cu.ft., per 100 cu.ft. .	0.237	-	0.106	-
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 2.00	\$0.06	\$ 2.00	\$0.06
For 3/4-inch meter	2.25	0.07	2.25	0.07
For 1-inch meter	2.50	0.10	2.50	0.10
For 1-1/2-inch meter	3.50	0.13	3.50	0.13
For 2-inch meter	4.50	0.17	4.50	0.17
For 3-inch meter	6.00	0.32	6.00	0.32
For 4-inch meter	13.50	0.44	13.50	0.44
For 6-inch meter	25.00	0.72	25.00	0.72
For 8-inch meter	32.00	1.07	32.00	1.07

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.

Arden-Cordova District
(Schedule AC-1)

<u>Proposed Rates</u>	<u>Per Meter Per Month</u>		
	<u>1982</u>	<u>1983</u>	<u>1984</u>
Quantity Rates:			
For all water delivered, per 100 cu.ft.	\$ 0.213	\$ 0.222	\$ 0.222
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 3.50	\$ 3.85	\$ 4.50
For 3/4-inch meter	4.25	4.75	5.75
For 1-inch meter	7.00	8.00	9.00
For 1-1/2-inch meter	12.00	14.00	17.00
For 2-inch meter	17.00	19.00	23.00
For 3-inch meter	26.00	29.00	35.00
For 4-inch meter	37.00	41.00	50.00
For 6-inch meter	55.00	60.00	70.00
For 8-inch meter	70.00	80.00	90.00

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.

In the last general rate proceeding decision for this district (D.81176, supra) applicant was authorized to consolidate the then separate Arden and Cordova Districts into one district for accounting and ratemaking purposes. Its proposal in this proceeding to merge the Arden and Cordova tariff areas at this time for general metered service and in 1984 for flat rate service are but final steps, which our staff supports, in completing the earlier consolidation.

Applicant's proposed rates do not reflect any increases in Pacific Gas and Electric Company's (PG&E) rates for purchased power placed in effect after January 1, 1980. Applicant has requested in its application that "the effect of increases or decreases in the rates for purchased power, postage, labor, payroll tax and property tax from those reflected in this Application but in effect at the time of Decision...be included in the rates authorized."

Need For Rate Relief

In its application applicant indicated the need for rate relief was caused by continuing increases in operating expenses and by increases in cost of money and rate of return requirements.

Rate of Return

Applicant and staff agree on the types and amounts of financing proposed in test years 1982 and 1983 and in 1984. Applicant accepts staff's use of average year capital costs and also accepts the capital structure of approximately 51% debt, 12% preferred stock, and 37% equity proposed by staff. Applicant and staff disagree on the rate of return on common equity with applicant advocating 16% and staff a 14.50-15.00% range. Applicant and staff also disagree on interest rates on future debt and the dividend rate on a future preferred stock issue.

Four components comprise the debt and preferred stock portion of applicant's capitalization. The four components are long-term debt, bank loans, a term note, and preferred stock. As for long-term debt in 1982, 1983, and 1984, applicant proposes to issue bonds in the principal amount of \$6 million, \$6 million, and \$5 million, respectively. To market these issues, applicant projects that the bonds issued in 1982 will have to bear interest at a rate of 17% and the bonds issued in 1983 and 1984 will have to bear interest at a rate of 15%. Staff has estimated that the applicable interest rates will be 15% in 1982, 14% in 1983, and 13.5% in 1984.

The differences between applicant's and staff's estimated costs of the bank loan and term note components of applicant's capitalization result from the parties' differing estimations of the prime rate during the test years. The bank loan component is a \$12 million line of credit with Harris Trust of Chicago and First Interstate Bank. The interest rate on the line of credit floats with the prime rate. The term note component will be a five-year note which applicant is currently negotiating with Harris Trust of Chicago to refinance a portion of the line of credit with that bank and First Interstate Bank. Since the term note is funded debt, the interest coverage requirement imposed by applicant's indentures will limit the term note to a principal amount of \$5-6 million. The interest rates on the term note will be the prime rate plus 1/4% in 1982, the prime rate plus 3/8% in 1983, and the prime rate plus 1/2% in 1984, 1985, and 1986. Applicant has estimated that the prime rate will be 17% in 1982 and 15% in 1983 and 1984. Staff has estimated that the prime rate will be 17.5% in 1982, 15% in 1983, and 14% in 1984.

Both applicant and staff agree that applicant should issue \$2 million of preferred stock in 1984. However, applicant estimates the dividend rate on that stock will be 15%, whereas staff estimates a dividend rate of 13.5%.

The recent past provides salient examples of the difficulty in forecasting correctly only the direction interest rates will take without attempting to quantify the changes. Nevertheless, specific estimates of the cost of new debt and preferred stock are essential to our rate of return determination.

In D.93337 dated December 30, 1981 in A.60153 and related matters, we assumed at page 51 (mimeo.) that (1) for 1982 all new PG&E long-term debt (with PG&E bonds at an AA rating) would sell at an interest cost of 15% and preferred stock at a dividend rate of 14.75% and (2) for 1983 all new PG&E long-term debt would sell at an interest cost of 14% and preferred stock at a dividend rate of 13.75%. Although applicant's bonds are privately placed with pension funds or insurance companies and therefore unrated, they very obviously do not qualify as high-grade (AA or better) obligations. Upon careful consideration of the estimates by applicant and staff in light of our above determinations in the PG&E general rate proceeding, we believe the following are reasonable cost rates for applicant's new debt and preferred stock:

	<u>1982</u> %	<u>1983</u> %	<u>1984</u> %
New Bonds	15.50	14.50	14.00
Bank Loans	17.00	15.00	14.50
Term Note	17.25	15.32	15.00
New Preferred	-	-	14.00

Applicant believes a 16% return on equity is necessary to increase its financial coverages. Since 1971, applicant has experienced a steady decline in interest and preferred dividend coverages. At this time, the coverage requirements imposed on applicant by its First Mortgage Bond Indentures will only permit applicant to finance a bond issue in an aggregate principal amount of up to \$5 or \$6 million. The coverage requirements for additional debt other than first mortgage bonds are imposed by a 5-3/4% debenture indenture. It provides further restrictions on applicant's ability to obtain debt financing, prohibiting applicant at this time from financing a \$6 million debenture or term note at an interest rate of 18% or more. Currently, applicant can finance only a small amount of preferred stock, dividend coverage being inadequate to support a practicable issue.

The ability to issue additional debt or preferred stock is crucial, but no more so than the ability to find someone to buy the securities. To find a buyer, applicant must compete in the marketplace for available capital. Generally, as interest or dividend coverages decrease, the risk involved in the security increases and it becomes more difficult to sell the securities. According to applicant, the 16% return on equity it requests would significantly improve its ability, by increasing its financial coverages, to obtain debt financing.

Applicant also contends a 16% return on equity would provide it with a more realistic opportunity to earn a fair return. This contention is in response to applicant's having experienced returns on equity significantly below the authorized level. According to applicant, this may be due to the multi-district nature of the company, underestimation of expenses, inverted rates, or other factors.

In addition, applicant points to an increase in risks faced by a water company as the result of Commission-mandated rate design and makes the following argument: "The volume of water sold by a water company varies significantly with the weather and the company's revenues are affected not only by volume but also by rate design. In the past, rates were set on a cost of service design based mainly on engineering and financial considerations. Four or five years ago, rate designs shifted from a cost of service basis to a lifeline and conservation basis." Applicant asserts that "the authorized fair rate of return on equity was never increased to allow for the change in rate design."

The staff has recommended that return on equity for applicant be set in the range of 14.50% to 15.00%. In reaching this recommendation, staff witness considered the comprehensive array of factors usually considered by staff including, among others, applicant's past earnings performance, its equity ratio, comparative earnings of water utilities, recently authorized rates of return for Class A water utilities under our jurisdiction, interest coverage requirements, capital requirements,

and the effects of continued inflation and increases in embedded cost of capital. Staff witness was guided by traditional standards espoused in the Bluefield and Hone decisions. With reference to the comparable risk standard in particular, staff witness considered water utilities to have less risk than other utilities for the following reasons:

- "1. 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.
- "2. Water companies do not capitalize interest on construction projects. Construction work in progress is included in rate base which results in a better quality of earnings and better cash flow.
- "3. Water utilities are allowed offset increases in costs such as purchased water and power by advice letter filings concurrently with such increases. Energy companies, however, face a lag between the time fuel cost increases are experienced and offsetting rates are authorized.
- "4. Water companies are not faced with risks such as fuel costs, source of supply, nuclear generation, technological changes, competition, etc."

Earlier in this discussion of the fair rate of return issue we adopted somewhat higher costs of new debt and preferred stock than those projected by staff. An upward pressure is, of course, exerted on the level of fair return for common equity as the cost of new debt capital increases. Conversely, some downward pressure, even though delayed, will occur as ERTA is taken into account in future rate proceedings on applicant's

numerous remaining districts. ERTA requires utilities to normalize tax depreciation and investment tax credit on post-1980 plant additions for both book and ratemaking purposes if the utilities are to qualify for such tax benefits.

In our soon-to-be-issued decision in A.60735, pertaining to operations in applicant's Big Bear District, we will authorize a constant return on common equity of 15%. This is due principally to our directive that applicant undertake an extensive main replacement program in that district over the next three years. However, applicant will not be confronted with those same large capital expenditures in this district.

Authorization of a return on common equity of 14.5% during 1982-1984 will, in our opinion, provide applicant opportunity to earn a reasonable rate of return in this district and will give due consideration to the following factors:

1. Applicant is a regulated public utility engaged in a business which affects the public interest and must provide service at reasonable rates.
2. Fair and reasonable rates must balance the interests of both the ratepayers as well as investors.
3. Interest coverage requirements.
4. Capital requirements.
5. Applicant's capital structure, capital costs, and financial history.
6. Economic conditions - the effect of continued inflation and increases in embedded costs of capital.

The adopted capital ratios, cost factors, and the resultant rates of return and implicit after-tax interest earnings are tabulated below:

Component	Capital Ratios	Cost Factors	Weighted Cost Totals	
Average Year 1982				
Long-Term Debt	44.00%	7.86%	3.46%	
Bank Loans	2.00	17.00	.34	
Term Note	5.00	17.25	.86	
Preferred Stock	12.00	7.85	.94	
Common Stock Equity	<u>37.00</u>	<u>14.50</u>	<u>5.37</u>	✓
Total	100.00%		10.97%	✓
			2.35*	✓
Average Year 1983				
Long-Term Debt	44.00%	8.95%	3.94%	
Bank Loans	2.00	15.00	.30	
Term Note	5.00	15.32	.77	
Preferred Stock	12.00	7.86	.94	
Common Stock Equity	<u>37.00</u>	<u>14.50</u>	<u>5.37</u>	✓
Total	100.00%		11.32	✓
			2.26*	✓
Average Year 1984				
Long-Term Debt	44.00%	9.71%	4.27%	
Bank Loans	2.00	14.50	.29	
Term Note	5.00	15.00	.75	
Preferred Stock	12.00	8.38	1.01	
Common Stock Equity	<u>37.00</u>	<u>14.50</u>	<u>5.37</u>	✓
Total	100.00%		11.69%	✓
			2.20%	✓

*Implicit after-tax interest coverage.

Results of Operations

To evaluate the need for rate relief, witnesses for applicant and the Commission staff have analyzed and estimated for test years 1982 and 1983 applicant's operating revenues, operating expenses, and rate base for this district. Staff's study of operating results (Exhibit 20) was based, in part, on later information than that available in early 1981 when applicant prepared its study (Exhibit 18). Applicant accepted staff's estimates supplemented to reflect the rate effective October 25, 1981 for purchased power and then further supplemented them to reflect the effects of ERTA. (The latter causes an increase in federal income tax expense for ratemaking purposes due to elimination of the full flow-through to ratepayers of benefits from accelerated depreciation and investment tax credit on utility plant additions placed in service after December 31, 1980.) At that point staff was still deferring addressing ERTA effects in this proceeding, awaiting our then forthcoming decision in Order Instituting Investigation (OII) 24 (D.93848 dated December 15, 1981).

Staff has now developed for this district information reflecting our adoption in D.93848 of the conventional normalization method for purposes of applying ERTA. Applicant has examined that information and accepts staff's calculations.

In Table 1, which follows, we have developed the adopted operating results for test years 1982 and 1983 from staff estimates modified to reflect the later rate for purchased power, as shown in Exhibit 19, and to reflect conventional normalization, as calculated by staff, for applying ERTA. The incremental revenue requirement effect of ERTA for 1982 is \$159,400.

Table 1

SOUTHERN CALIFORNIA WATER COMPANY
Arden-Cordova DistrictEstimated Results of Operations

Test Year 1982

(Page 1 of 2)

Item	Present Rates				Authorized
	: Per Staff: Operating		: Effect of:		: Rates
	: Report : Expense		: 1981 : Adopted		: Adopted
	: (Ex. 20) : Adjustments:		: Tax Act : Results		: Results
	(a)	(b)	(c)	(d)	(e)
(Dollars in Thousands)					
Operating Revenues	\$ 606.8	\$	\$	\$ 606.8	\$ 922.6
Operating Expenses					
O&M Expenses					
Purchased Power	114.3	10.8		125.1	125.1
Purchased Chemicals	15.2			15.2	15.2
Payroll	116.1			116.1	116.1
Uncollectibles	0.4			0.4	0.6
Other	60.4			60.4	60.4
Tot. O&M Exp.	306.4	10.8		317.2	317.4
A&G Expenses					
Payroll	7.4			7.4	7.4
Pensions & Benefits	29.1			29.1	29.1
Other A&G	17.9			17.9	17.9
Local Franchise Tax	3.4			3.4	5.2
Tot. A&G Exp.	57.8			57.8	59.7
General Off. Allocation	41.1			41.1	41.1
Subtotal	405.3	10.8		416.1	418.1
Depreciation Expense	117.0			117.0	117.0
Taxes Other Than Inc.	45.5			45.5	45.5
Tot. Exp. (Excl. Inc. Tax)	567.8	10.8		578.6	580.6
Net Rev. Before Inc. Tax	39.0	(10.8)		28.2	346.1
CCFT	(15.3)	(1.0)	-	(16.3)	13.8
FIT Before ITC	(73.5)	(4.5)	17.4	(60.6)	69.9
ITC	(64.7)	-	64.7	-	-
FIT Incl. ITC	(138.2)	(4.5)	82.1	(60.6)	69.9
Tot. Taxes on Inc.	(153.5)	(5.5)	82.1	(76.9)	83.7
Tot. Expenses	414.3	5.3	82.1	501.7	664.3
Net Revenues	192.5	(5.3)	(82.1)	105.1	258.3
Rate Base	2,397.2	-	(42.6)	2,354.6	2,354.6
Rate of Return	8.03%	(0.22)%	(3.35)%	4.46%	10.97%

(Red Figure)

Table 1

SOUTHERN CALIFORNIA WATER COMPANY
Arden-Cordova DistrictEstimated Results of Operations

Test Year 1983

(Page 2 of 2)

Item	Present Rates				Authorized
	Per Staff	Operating	Effect of:		Rates
	Report	Expense	1981	Adopted	Adopted
	(Ex. 20)	Adjustments	Tax Act	Results	Results
	(a)	(b)	(c)	(d)	(e)
(Dollars in Thousands)					
Operating Revenues	\$ 617.8	\$	\$	\$ 617.8	\$1,013.0
Operating Expenses					
OGM Expenses					
Purchased Power	115.1	10.8		125.9	125.9
Purchased Chemicals	16.7			16.7	16.7
Payroll	128.0			128.0	128.0
Uncollectibles	0.4			0.4	0.6
Other	66.6			66.6	66.6
Tot. OGM Exp.	326.8	10.8		337.6	337.6
A&G Expenses					
Payroll	8.2			8.2	8.2
Pensions & Benefits	31.8			31.8	31.8
Other A&G	19.8			19.8	19.8
Local Franchise Tax	3.5			3.5	5.7
Tot. A&G Exp.	63.3			63.3	65.5
General Off. Allocation	44.3			44.3	44.3
Subtotal	434.4	10.8		445.2	447.6
Depreciation Expense	127.3			127.3	127.3
Taxes Other Than Inc.	49.6			49.6	49.6
Tot. Exp. (Excl. Inc. Tax)	611.3	10.8		622.1	624.5
Net Rev. Before Inc. Tax	6.5	(10.8)		(4.3)	322.5
CCFT	(21.0)	(1.0)		(22.0)	15.7
FIT Before ITC	(98.8)	(4.5)	23.4	(79.9)	83.4
ITC	(53.8)		53.8	-	-
FIT Incl. ITC	(152.6)		77.2	(79.9)	83.4
Tot. Taxes on Inc.	(173.6)	(5.5)	77.2	(101.9)	99.1
Tot. Expenses	437.7	5.5	77.2	520.2	723.6
Net Revenues	180.1	(5.3)	(77.2)	97.6	289.4
Rate Base	2,685.1		(129.6)	2,555.5	2,555.5
Rate of Return	6.71%	(0.20)%	(2.69)%	3.82%	11.32%

(Red Figure)

Authorized Revenue Increases

By comparing the entries for operating revenues in Table 1, it can be seen that (1) the rates to be authorized for test year 1982 yield additional gross revenues of \$315,600 which represent a 52.0% increase over revenues at present rates and (2) the rates to be authorized for test year 1983 yield additional gross revenues of \$73,700 which represents a 7.8% increase over revenues at 1982 rates. In addition, a third set of rates will be authorized to allow for attrition in rate of return after test year 1983. This is in keeping with our intention that the districts of Class A water utilities will not file a general rate increase application more often than once in three years.

The attrition to be allowed for after 1983 has an operational component and a financial component. Its operational component is 1.05% as indicated by the 1982 rate of return of 10.97% declining to 9.92% for 1983 at the rates authorized for 1982. Its financial component is the adopted estimate of financial attrition in rate of return between years 1983 and 1984 of 0.37% (i.e., the difference between the rates of return of 11.69% and 11.32% for years 1984 and 1983, respectively).

✓

✓

To offset the 1.42% combined financial-operational attrition rate, we may authorize a step increase for 1984 of up to \$74,800. Applicant will be required to file an advice letter with supporting work papers on or after November 15, 1983 to justify such an increase. Fixing rates in this way results in a better matching of the consumers' interests than setting a high initial rate which would yield the adopted rate of return for a three-year average. The required supplemental filings will permit review of achieved rates of return before the final step increase is granted. ✓

Applicant did not technically file an amended application to request additional revenues. While we cannot authorize more in revenues than an applicant requests, in this case we believe an exception is warranted. We are required by federal law to set rates recognizing tax expenses imposed by ERTA or have applicant run the risk of losing its eligibility for accelerated depreciation. This application was filed before passage of ERTA and so did not include its effects. When the effects became known, applicant furnished notice to its ratepayers and produced witnesses and testimony in support of the increased amount. Applicant should also have amended its application to reflect the increased revenue requirement but it did not. It would be administratively cumbersome to require it to do so now. However, since notice has been provided to customers (and applicant has supported the additional request), we will authorize it without requiring applicant to amend its application.

It will be noted we are authorizing an increase in 1982 of 52%. This is an exception to our recently adopted general policy of holding increases in any single year to 50%. However, much of the increase is attributable to ERTA and the amount is only slightly in excess of our general policy guideline. In these circumstances the increase we are authorizing is justified.

Rate Design

After pointing out that there is no need to consider a lifeline rate for residential customers because all of those customers are on flat rate service, staff made the following recommendations:

- a. The required revenue increase should be "spread between the flat rate and the metered rate on a same percentage basis."
- b. For metered service: (1) the present ratio of service charges providing 21% of the revenues and quantity charges providing 79% of the revenues should be retained by applying the same percentage increase to each of the two components, and with "the increase in service charge...spread proportional to current service charges from the meter size"; and (2) the one-block quantity rate structure proposed by applicant should be adopted.

- c. Applicant's proposal to "consolidate the Arden and the Cordova Tariff Area" should be approved.
- d. Applicant's proposal to eliminate its Public Fire Hydrant Service Schedule AC-5 is consistent with Public Utilities Code Section 2713 and Commission Resolution L-213 dated December 18, 1979. Staff notes that many of the water utilities have entered into a uniform fire hydrant service agreement with their respective fire protection agencies in accordance with Resolution L-213. Since submission, SoCal has made an advice letter filing regarding uniform fire hydrant service agreements: but, to our knowledge, has not yet entered into an agreement for its Arden-Cordova District. When such agreement is entered into, cancellation of Schedule AC-5 will be appropriate.

Applicant is supportive of staff's rate design recommendations. We adopt them.

Findings of Fact

1. Applicant's service, conservation programs, pump efficiency program, and water quality are satisfactory.
2. The adopted estimates in Table 1 of operating revenues, operating expenses, and rate base for the test years 1982 and 1983, together with an annual fixed rate of decline in rate of return of 1.05% for 1984 due to operational attrition, reasonably indicate the results of applicant's future operations. ✓
3. The adopted estimates in Table 1 of the impact of ERTA on net revenues and rate base properly reflect the consequences of ERTA and our decision in OII 24.
4. The compilation of adopted quantities and the adopted tax calculation are contained in Appendix C to this decision.
5. Rates of return of 10.97%, 11.32%, and 11.69%, respectively, on applicant's rate base for 1982, 1983, and 1984 are reasonable. The related return on common equity is a constant 14.50%. This will require an increase of \$315,600, or 52%, ✓

in annual revenues for 1982; a further increase of \$73,700 or 7.8%, for 1983; and a further increase of \$74,800, or 7.4%, for 1984.

6. Applicant's proposal to convert the Arden and Cordova tariff areas into one consolidated tariff area for metered service (Schedule AC-1) in 1982 and for flat rate service (Schedule AC-2) in 1984 is compatible with the districtwide accounting now in effect and is suitably timed; the proposal is fair and reasonable.

7. Applicant's proposal to eliminate the Public Fire Hydrant Service Schedule AC-5 is consistent with Public Utilities Code Section 2713. The revenues authorized, under the provisions of Commission Resolution L-213, incorporate the present public fire protection surcharges offsetting loss of fire hydrant revenues. No refund is necessary.

8. The adopted rate design is reasonable.

9. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

10. The further increases authorized in Appendix B should be appropriately modified in the event the 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, 1982 and/or September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision or (b) 10.97% for 1982 and 11.32% for 1983.

Conclusions of Law

1. The application should be granted to the extent provided by the following order; the adopted rates are just, reasonable, and nondiscriminatory.

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

O R D E R

IT IS ORDERED that:

1. Applicant Southern California Water Company is authorized to convert the Arden and Cordova tariff areas into one consolidated tariff area for metered service in 1982 and for flat rate service in 1984.

2. Applicant is authorized to file for its Arden-Cordova District, effective today, the revised rate schedules in Appendix A. The filing shall comply with General Order Series 96. The effective date of the revised schedules shall be the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1982, applicant is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases for 1983 attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Arden-Cordova District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1982, exceeds the lower of: (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 10.97% ✓
This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. The staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. On or after November 15, 1983, applicant is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases for 1984 attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Arden-Cordova District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 11.32%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. The staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1984, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

5. Within 60 days after the effective date of this order applicant shall mail to all its customers in this District the bill insert notice set out in Appendix D.

This order is effective today.

Dated MAR 2 1982, at San Francisco, California.

JOHN E. BRYSON

President

RICHARD D. GRAVELLE

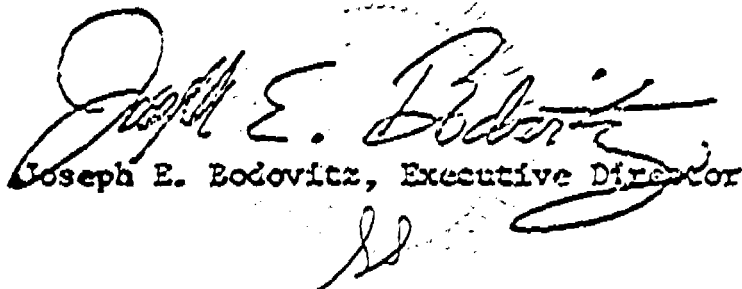
LEONARD M. GRIMES, JR.

VICTOR CALVO

PRISCILLA C. CREW

Commissioners

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


Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

Southern California Water Company
Arden-Cordova District

Schedule No. AC-1

Arden-Cordova Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Arden Manor and vicinity, located approximately six miles northeast of Sacramento, and Rancho Cordova and vicinity, Sacramento County.

RATES

	Per Meter	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.20	(I)
For 3/4-inch meter	3.60	
For 1-inch meter	4.10	
For 1 1/2-inch meter	5.70	
For 2-inch meter	7.50	
For 3-inch meter	10.00	
For 4-inch meter	22.00	
For 6-inch meter	40.00	
For 8-inch meter	52.00	
Quantity Rates:		
For all water delivered per 100 cubic feet	0.214	(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 monthly charge computed at the Quantity Rates.

APPENDIX A

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Southern California Water Company
Arden-Cordova DistrictSchedule No. ACA-2Arden Tariff AreaFLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Arden Manor and vicinity, located approximately six miles northeast of Sacramento, Sacramento County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single unit of occupancy, including premises not exceeding 12,000 sq.ft. in area	\$ 6.50	(1)
For a duplex including premises not exceeding 12,000 sq.ft. in area	13.00	
a. For each additional detached unit of occupancy on the same premises and served from the same service connection	3.50	
b. For each swimming pool equipped with recirculating filter system, on the same premises and served from the same service connection	1.75	(1)

APPENDIX A

Page 3

Southern California Water Company
Arden-Cordova DistrictSchedule No. ACC-2Cordova Tariff AreaFLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Rancho Cordova and vicinity, Sacramento County.

RATES

	Per Service Connection Per Month	
For a single unit of occupancy, including premises not exceeding 12,000 sq.ft. in area	\$ 7.00	(I)
For a duplex, including premises not exceeding 12,000 sq.ft. in area	14.00	
a. For each additional detached unit of occupancy on the same premises and served from the same service	3.50	
b. For each swimming pool equipped with recirculating filter system on the same premises and served from the same service connection	1.75	(I)

APPENDIX A
Page 4

Southern California Water Company
Arden-Cordova District

Schedule No. AC-5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Within the established Arden-Cordova District.

RATES

	<u>Per Hydrant Per Month</u>
For each hydrant	No Charge

APPENDIX A
Page 5

Southern California Water Company
All Districts

Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

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

Rate B - Applicable within the Barstow and Simi Valley Districts.

Rate C - Applicable within the Desert Districts.

RATE

	Per Month		
	A	B	C
For each inch of diameter of service connection	\$3.00	\$2.25	\$2.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. The facilities paid for by the applicant shall be the sole property of the applicant.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connection for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protecting against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. In accordance with Section 774 of the Public Utilities Code, the utility is not liable for injury, damage or loss resulting from failure to provide adequate water supply or pressure.

(END OF APPENDIX A)

APPENDIX B

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.

AC-1 General Metered Service

<u>Service Charges</u>	<u>Effective Dates</u>	
	<u>1-1-83</u>	<u>1-1-84</u>
For 5/8 x 3/4-inch meter	\$ 0.30	\$ 0.30
For 3/4-inch meter	0.35	0.30
For 1-inch meter	0.30	0.40
For 1 1/2-inch meter	0.50	0.50
For 2-inch meter	0.50	0.50
For 3-inch meter	1.00	1.00
For 4-inch meter	2.00	2.00
For 6-inch meter	4.00	4.00
For 8-inch meter	4.00	4.00

Quantity Rates:

For all water delivered per 100 cubic feet	0.001	0.021
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ACA-2 Flat Rate Service (Arden Tariff Area)Service Connection Charges

For a single unit of occupancy including premises not exceeding 12,000 sq.ft.	0.90	0.70
For a duplex including premises not exceeding 12,000 sq.ft. in area	1.80	1.40
For each additional detached unit of occupancy on the same premise	0.50	0.00
For each swimming pool equipped with recirculating filter system	0.25	0.00

ACC-2 Flat Rate Service (Cordova Tariff Area)Service Connection Charges

For a single unit of occupancy including premises not exceeding 12,000 sq.ft.	0.60	0.50
For a duplex including premises not exceeding 12,000 sq.ft. in area	1.20	1.00
For each additional detached unit of occupancy on the same premise	0.50	0.00
For each swimming pool equipped with recirculating filter system	0.25	0.00

(END OF APPENDIX B)

APPENDIX C
Page 1ADOPTED QUANTITIES

Company: Southern California Water Co.
District: Arden-Cordova

	<u>1982</u>	<u>1983</u>
1. <u>Water Production:</u> Ccf(1000)	3,857.1	3,925.2
Wells:	2,833.4	2,901.5
Surface Water:	1,023.7	1,023.7
2. <u>Purchased Power:</u>		
Electric Cost:	Supplier: PGE	Date: 10-25-1981
Kwh:	439,110	439,110
\$ per Kwh:	\$ 0.076330	\$ 0.076330
Quantity Cost:	\$ 33,517	\$ 33,517
Fixed Cost:	\$ 3,557	\$ 3,557
Total Electric Cost:	\$ 37,074	\$ 37,074
Electric Cost:	Supplier: SMUD	Date: 4-1-1981
Kwh:	2,539,315	2,599,545
\$ per Kwh:	\$ 0.024270	\$ 0.024030
Quantity Cost:	\$ 61,630	\$ 62,469
Fixed Cost:	\$ 10,045	\$ 10,045
Total Electric Cost:	\$ 71,675	\$ 72,514
So. Cal. Gas Co.		Date: 3-1-1981
Therms:	35,855	35,855
\$ per Therm :	\$ 0.453120	\$ 0.453120
Quantity Cost:	\$ 16,247	\$ 16,247
Service Charge:	\$ 14	\$ 14
Total Gas Cost:	\$ 16,261	\$ 16,261
Total Power Cost:	\$ 125,000	\$ 125,800
3. <u>Ad Valorem Taxes:</u>	\$ 36,500	\$ 39,700
Tax Rate:	4.96%	4.96%

Note: PGE Rate

	\$/kwh	Date
Basic	\$ 0.01948	10-25-1981
ECAC	0.05406	10-25-1981
AER	0.00257	10-25-1981
Solar Fin.	0.00002	10-25-1981
Energy Comm. C.	0.00020	9- 1-1981
	<u>0.07633</u>	

APPENDIX C

Page 2

ADOPTED QUANTITIES

4. Number of Services-Meter Size:	1982	1983
5/8 x 3/4	12	12
3/4	93	98
1	245	260
1 1/2	51	51
2	139	149
3	23	23
4	11	11
6	4	4
8	5	5
10	-	-
	<u>583</u>	<u>613</u>

5. Metered Water Sales	1982	1983
All Quantities-Ccf	698,600	727,400

6. Number of Services:	No. of Services		Usage-KCcf		Avg. Usage-Ccf/yr.	
	1982	1983	1982	1983	1982	1983
Comm. Metered	557	587	557.0	557.0	1,000	1,000
Public Authority	24	24	130.2	130.2	5,425	5,425
Industrial	2	2	7.8	7.8	3,910	3,910
Other	-	-	3.6	2.4		
subtotal	<u>583</u>	<u>613</u>	<u>698.6</u>	<u>727.4</u>		
Comm. Flat*	8,207	8,300	2,600.8	2,630.3		
Private Fire Prot.	37	39				
Total	<u>8,827</u>	<u>8,952</u>				
Water Loss: 14.46%			<u>557.7</u>	<u>567.5</u>		
Total Water Produced			<u>3,857.1</u>	<u>3,925.2</u>		

7. Revenue	1982	1983
Comm. Metered	\$ 192,400	\$ 204,400
Comm. Flat	720,600	798,800
Private Fire Prot.	9,600	9,800
Total	<u>922,600</u>	<u>1,013,000</u>

* Flat Rate Service:	1982	1983
Single Unit	7,826	7,910
Additional Unit	15	15
Duplex	381	390
Pool	388	392

APPENDIX C
Page 3INCOME TAX CALCULATION

	<u>1982</u>	<u>1983</u>
	(Thousands of Dollars)	
Operating Revenues	\$ 922.6	\$ 1,013.0
O&M Expenses:		
Purchased Chemical	15.2	16.7
Purchased Power	125.0	125.8
Payroll	123.5	136.2
Other	107.5	118.3
Uncollectible @ 0.0606%	0.6	0.7
Local Franchise @ 0.56%	5.2	5.8
Payroll Taxes	9.0	9.9
Ad Valorem Taxes	36.5	39.7
Gen. Office Alloc.	41.1	44.3
Interest	<u>112.9</u>	<u>137.0</u>
Total Deductions	576.5	634.4
State Tax Depreciation	202.0	215.4
Net Taxable Income	144.0	163.4
State Corp. Franch. Tax	13.8	15.7
Federal Tax Depreciation	179.0	180.4
State Income Tax	13.8	15.7
Pref. Stock Div. Credit	0.3	0.3
Net Taxable Income	160.7	190.7
Fed. Income Tax @ 46%	70.4	83.9
Less: Grad. Tax Adj.	0.5	0.5
Total Federal Income Tax	69.9	83.4

Net to Gross Multiplier: 2.0613

Book Depreciation: \$ 117,000 (1982); \$ 127,300 (1983).

(End of Appendix C)

APPENDIX D

Bill Insert for SoCal Customers
(Arden-Cordova District)

One item of expense included in the rate increase recently granted to Southern California Water Company for its Arden-Cordova District by the Public Utilities Commission amounting to \$159,400 was attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future as a percent of your bill.

(END OF APPENDIX D)