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ORIGINAL

Decision 82 08 019 AUG 4 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Santa Clarita Water Company for Authority to increase its rates and charges for water service in Bouquet Canyon and vicinity near Saugus in the northeastern portion of Los Angeles County.	Application 60983 (Filed October 14, 1981; amended January 18, 1982)

William G. Fleckles, Attorney at Law, for applicant.
Carl K. Oshiro, Attorney at Law, for the Commission staff.

O P I N I O N

General

By this amended application, Santa Clarita Water Company (applicant) seeks authority to increase its water rates to produce annual revenue increases of $1,394,000 or 51.7% in 1982, and by additional amounts of $359,200 or 8.4% in 1983, and $307,200 or 6.6% in 1984. Applicant seeks a 1982 rate of return on rate base of 15.80% to yield a 17.0% return on equity. Applicant seeks the 1983 and 1984 increases to offset its estimates of operational attrition, expressed as a decline in the rate of return on its rate bases for 1983 and 1984.

Applicant filed its amendment to offset:

1. Further increases in its electric power for pumping expense based on the rates put into effect on January 1, 1982 by its supplier, Southern California Edison Company (Edison).
2. The revenue requirement associated with an increase in its 1983 estimated rate base from $4,401,000 to $4,731,400.
3. Increases, for ratemaking purposes, of federal income taxes due to changes in the regulatory treatment of federal income taxes.

Summary

This decision authorizes (1) a rate increase of $1,107,500 or 41.05% in 1982 and (2) rate increases of $369,700 or 9.28% in 1983 and $217,000 or 4.98% in 1984. These increases will be reduced by amortizations discussed below. This decision also adopts the staff recommendation to allow a 13.01 rate of return on rate base to yield a 13.50% return on equity.

Applicant's proposal to use a 1983 step increase to offset an estimated 53.8% increase in purchased water rates (from 65 per acre-foot (AF) to $100/AF is adopted.

Applicant requests an offset rate reduction to amortize the overcollection in its purchased water and purchased power balancing amount overcollections. In order to lessen the magnitude of the increase requested for 1982, this decision provides for a 12-month amortization of these balances. Our use of May 4, 1982 electric and gas rates further reduces applicant's revenue requirements.

Applicant's proposal for transferring its Tax Initiative Account (TIA) balance overcollection to surplus is inconsistent with our purpose in establishing such accounts, namely to flow through property tax reductions in rates. Applicant is ordered to amortize its TIA balance over 30 months. The balancing account and TIA amortizations do not coincide with the test years adopted in this decision. Therefore, they are not included in the adopted summaries of earnings. But the level of authorized rates is reduced to reflect these amortizations.

This decision reflects the consequences of ERTA and of our decision in OII 24. Appendix D explains the impact of ERTA on the rates authorized in this decision.

Notices and Hearing

Notices of the hearing of the original and amended applications for rate increases and of a public meeting held in Valencia on December 14, 1981 were provided by mailing bill inserts to each of applicant's customers, by newspaper publication, and by posting. Applicant provides water service to cover 11,000 customers.

An evidentiary hearing was held on this application before Administrative Law Judge Jerry Levander in Los Angeles on February 16, 1982. The matter was submitted on that day subject to receipt of a late-filed exhibit, which has been received.

Customer Testimony

About 41 customers attended the public witness proceeding in the community of Valencia. Thirteen customers questioned the magnitude of applicant's original request for a 45.7% rate increase in 1982 and for step increases in 1983 and 1984. A spokesperson for the Friendly Valley Homeowners Association (FVHA) complained about the quality of water served in that area.

Thirteen of applicant's customers attended the February 16, 1982 hearing. F. Gage Biren and Donna Valenzuela addressed the Commission.

Biren is spokesperson for the 2,200-member Friendly Valley Community Council, a former director and former president of the Crescenta Valley County Water District, and a former director of the Castaic Lake Water Agency (Castaic). He notes that Castaic issued bonds to construct facilities used to supply filtered water to applicant, which in turn distributes that water to its customers; local residents are paying taxes to pay off those bonds. He criticizes applicant for not having made noticeable improvements in the quality of the water it delivers. He further states that many of applicant's customers object to sand and air in their water, that the water may be potable but it is not palatable, and that therefore applicant's customers buy drinking water from other suppliers. After his analysis of applicant's rate proposal, he concludes that applicant's request for an increase of 66.7% over three years, including a 51.7% increase in 1982, is excessive and that any increase allowed should be spread out over a longer period of time.

Based on Biren's sampling of the 1,208 condominium customers in Friendly Valley, he estimates the average water use per condominium customer is approximately 650 cubic feet of water per month. At applicant's proposed 1982 rates a typical condominium customer's bill would consist of $4.45 in quantity charges plus a $6.98 service charge. Biren notes that a high service charge results in substantially higher average unit costs for the small user compared to the large user. He requests that the Commission adjust applicant's rates to increase the percentage of revenues obtained from quantity charges and to reduce the percentage of revenues obtained from service charges.

Biren further contends that the following items contained in applicant's estimates of increases in expenses are excessive:

	1980 (Dollars in Thousands)	1981	Percentage Increase
Purchased Power	$402.1	$635.1	57.9%
Purchased Water	93.7	364.4	288.7
Payroll	347.5	419.3	20.6a/
Rents	181.1	420.2	132.0

a/ Applicant projects further payroll expense increases of 20.2% in 1982 and 10.2% in 1983.

Valenzuela also objected to the magnitude of the proposed increases. She states the increases are excessive compared to salary increases.

Service Area and Facilities

Applicant's service area contains over 70 square miles located generally north and east of Saugus, in Los Angeles County. The service area consists of a large irregularly shaped parcel located on both sides of the Santa Clara River and nearby noncontiguous areas in west Newhall. The service area includes river plain, steep canyon, and high plateau areas. Elevations within the service area range from 1,200 to 2,150 feet above mean sea level.

The service area has been divided into numerous pressure zones due to its size and to the large variations in elevation within it. The system contains wells, connections for purchasing water from Castaic, 19 steel storage tanks at higher elevations (with a capacity of nearly 22 million gallons), 13 booster stations, hydropneumatic systems, and over 150 miles of transmission and distribution mains. Exhibit 1 contains a topographic map which outlines applicant's service area (Chart 3-B) and a schematic diagram of applicant's system (Chart 3-C).

Water Supply and Water Quality

Applicant is revamping its system to supply water to its customers from 14 company wells with a combined capacity of 14,270 gallons per minute (gpm) and from three connections to the Castaic system with a capacity of 12,000 gpm. Due to cutbacks in applicant's groundwater production, it is in the process of abandoning five other wells it owns, including a well which had been used to supply the Friendly Valley area. Applicant installed additional plant, including storage and booster facilities, to receive and blend the Castaic supply with its well supplies. It is required to have the capability of meeting system peak demands and fire-flow requirements from its own storage.

In D.91372 the Commission states that applicant needs the Castaic supply to replace a portion of its excessively mineralized and hard well-water supplies. With the Castaic supply applicant could meet its present and future system demands and improve the quality of the water served to its customers. That decision also discusses the litigation leading to a stipulated judgment, which limits applicant's groundwater production to 5,000 AF per year. Applicant's contract with Castaic permits it to purchase 5,500 AF of water from Castaic in 1981 and to increase its purchases in annual increments of 500 AF through 1985. Afterwards, applicant's annual purchases of water from Castaic would be limited to 7,500 AF.

Since voters in the Santa Clarita Valley approved an $18,600,000 bond issue to obtain a large, higher quality water supply, applicant strives to supply some Castaic water to each of its customers. However, applicant states that the quality of water it serves varies in different portions of its service area because of variations in quality of the operative well supplies. If it attempted to supply all of its customers with a uniform blend of water, it would incur excessive capital and/or operating costs.

In order to resolve water quality complaints in the Friendly Valley area, applicant is increasing the proportion of Castaic water in the blend for that area. Applicant's president and manager Manetta testified that during periods of heavy demand the well which had supplied Friendly Valley did contain sand and air. That well has been taken out of service. It will be sealed and abandoned.

Manetta further testified that:

1. The "sand" now being observed in the Friendly Valley area water supply consists of particles being broken off the pipe lining previously precipitated out of the local well supply.
2. Applicant's well supplies were highly mineralized but had no discernible taste or odor.
3. Many water softener servicepersons have not decreased the frequency with which they change water softening chemicals for applicant's customers even though there is a lesser need for such chemicals.

4. The factors noted above have misled many of its customers into believing that applicant had not improved the quality of the water it serves.

<u>Conservation</u>

Applicant's conservation program contains the following elements:

1. Revision of its water service bill to show present and prior year's consumption for comparable periods being billed to develop greater consumer awareness of the need for conservation.

2. Sending an engineer to elementary grade schools to discuss conservation with the students.

3. Office distribution of pamphlets prepared by the Los Angeles Department of Water and Power supporting conservation. These materials will be replaced with comic books and brochures, ordered from the State Department of Water Resources, promoting conservation.

4. Conducting water loss and leak detection investigations to cut down on water losses.

5. Discussions with customers concerning installation of timers and more frequent monitoring of irrigation practices to avoid wasting irrigation water.

6. Discussions with developers on types of landscaping to plant to cut down on water use.

Results of Operations

Applicant has provided recorded revenues and expenses for the years 1976 through 1980, and from this information has projected revenues[1/] and expenses for 1981 and for test years 1982 and 1983. In addition, applicant calculated an operational attrition rate to develop the revenue requirement for its requested 1984 offset increase. A staff engineer has made his own projections, which vary in part from applicant's. Differences between applicant and the staff and further adjustments, adopted by the Commission, are discussed below. Applicant's customers object to the magnitude of the proposed 1982 increase. Through use of a shorter period to amortize applicant's balancing account balances and use of later electric and gas rates, the magnitude of applicant's 1982 increase is reduced. A further reduction in rates results from our amortization of the balance in applicant's TIA. We have also summarized the causes for major increases in applicant's expenses.

Operating Revenues

The staff estimate differs from applicant's revenue estimates for miscellaneous revenues for construction purposes. Applicant's miscellaneous revenues do not reflect its proposed increases in service charges. The staff revenue estimates at proposed rates exceed applicant's estimates by $6,600 in 1982 and $8,500 in 1983 primarily based on those increases in service charges. Since construction water is provided at

1/ Applicant used 1971 through 1980 climatological and use per residential customer data to develop a normalized water use for the test years.

metered service rates (plus reimbursement for installation and removal charges), these staff estimates will be adopted.

Applicant estimates that it would serve 48 residential and commercial customers on a limited flat rate schedule. Applicant proposes no increase in rates for those customers. Applicant has now metered all but 19 of those customers.2/ Applicant's witness believes there would be a very slight effect on revenues due to that metering.

The adopted results reflect revenue increases of $4,800 in 1982 and $6,000 in 1983 for the 27 customers transferred from flat rate service to metered service. In addition, we will require the remaining flat rate customers to pay a proportionate share of the rate increases authorized in this decision. This increases revenues by $340 in 1982 and $600 in 1983.

Payroll Expense

Applicant's witnesses testified that its overall payroll expenses are increasing due to:

1. General and merit increases paid to its employees. 3/
2. Its requirements for more staff related to customer growth.

2/ Applicant is reluctant to meter the remaining customers to avoid repairs or replacements of a substandard system it had acquired.

3/ Applicant adopted an improved benefit package for its employees in 1979 which is reflected in its administrative and general expenses.

3. Growth in the number of meters[4] it must test to conform to the requirements of the Commission's General Order Series 103.

4. Its need to operate and maintain more plant to blend and boost the Castaic supply with its well supplies.

Applicant's estimates for payroll expenses include the addition of two employees in 1982 and none in 1983. The staff engineer analyzed applicant's customer growth and operating and maintenance practices and estimated a need for one new employee in 1982 and another in 1983. Applicant did not contest that adjustment. The staff's payroll expense estimates are adopted.

Pumping Expenses

This group of accounts includes applicant's purchased power and purchased gas for pumping expenses and operational and maintenance expenses for applicant's pumping equipment.

Due to the stipulated judgment, applicant is pumping less water from wells at higher elevations. In order to serve the rapidly growing upper portions of its system, applicant is using water boosted from lower elevations in its system to compensate for the loss of upper-area well production.

Since all increases in applicant's total supply requirements are being met by boosting additional quantities of Castaic water, the average energy requirement per unit of water delivered is increasing.

4/ Applicant's outside service expenses also reflect increases in numbers of meters being tested.

Applicant's purchased power and purchased gas expenses have increased substantially due to a generally upward trend in electric and gas rates, the above-described changes in applicant's operations, and growth in total water requirements.

A staff engineer testified that all of applicant's pumps were tested in 1981. Based on his review of the results of those tests, he believes that applicant's pumps are operating at reasonable efficiencies, and he has adopted applicant's pumping expense estimates.

One of the reasons applicant filed the amendment to the application is to recover increased electric rate expenses. Applicant also has the opportunity to recover increased electrical expenses through later amortization of any balancing account undercollections. Edison's Energy Cost Adjustment Clause rates were reduced on May 4, 1982. On that same date, Southern California Gas Company (SCG) was authorized to increase its Conservation Cost Adjustment which increases applicant's purchased gas expenses.

If adopted expenses are based on later electric rates, it would be equitable to use later gas rates in determining applicant's expenses. Use of later electric and gas rates will permit net expense reductions of $17,740 ($27,150-$9,410) for 1982 and $18,960 ($28,370-$9,410) for 1983. It is reasonable to adopt expenses based on those later rate levels to lessen the magnitude of the 1982 increase authorized in this decision.

Source of Supply Expenses

Applicant's 1979, 1980, and 1981 source of supply expenses,[5/] excluding purchased water expenses, were approximately $21,800, $22,300, and $31,700, respectively, primarily for well and supply main maintenance. Applicant pumped 10,293 AF of water from its wells in 1979. It took its initial deliveries of water from Castaic in 1980. Its estimates of source of supply expenses for 1982 and 1983 are based on the stipulated judgment limiting its well supply to 5,000 AF per year. Castaic is increasing its rate from $65/AF in 1982 to $100/AF in 1983.

Applicant's estimates of $41,600 for 1982 and $44,800 for 1983 for source of supply expenses, excluding purchased water expenses, are reasonable and are adopted.

Applicant's purchased water expense estimates are $390,800 for 1982 and $649,700 for 1983, an increase of $258,900. The staff made a minor correction to applicant's estimate, increasing 1983 purchased water expenses by $300. Castaic's rate increase accounts for $210,400 or 81.2% of the staff's estimated increase in purchased water expenses of $259,200 for 1983. Increased water purchases account for the remaining $48,800.

This decision adopts the staff's purchased water estimates.

5/ We take official notice of applicant's 1979, 1980, and 1981 annual reports.

Applicant's consultant testified that if the 1983 rates adopted by the Commission reflected purchased water costs of $100/AF, no offset for this increase is needed. Since adopted 1983 rates reflect the $100/AF rate for Castaic water, the operational attrition offset for 1984 should not include attrition due to the higher purchased water rate, but it should reflect attrition due to increases in the ratio of purchased water to the total water supply.

Unaccounted-for Water

Applicant's purchased water and purchased fuel expenses are materially affected by the amount of system water losses. Applicant estimates its long-term level of unaccounted-for water equals 16.5% of water sales.[6/] Approximately 97% of the footage of mains in applicant's system is asbestos-cement pipe. Applicant's consultant believes the loss for this system should ideally be in the 5% to 8% range. Applicant attributes the high level of water losses primarily to the theft of water by contractors. Manetta testified that large losses are also due to major and relatively frequent breaks in large steel mains (constructed with flexible couplings) in two seismically active portions of the service area.

The service area is frequently subject to hot weather and strong winds which create hazardous fire conditions. Los Angeles County is now requiring subdividers to plant vegetation on hillsides and to install sprinkler systems. Contractors engaged in subdivision work and in highway construction fill their tank trucks from fire hydrants within applicant's

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6/ The impact of applicant's flat rate water sales on this percentage is negligible.

extensive service area for various purposes, including watering to establish newly planted vegetation. Lacking police authority, applicant's crews have warned some of these offenders that applicant would prosecute them if they were caught taking water again. Manetta testified that the county's sheriff and fire departments have agreed to prosecute anyone they caught stealing water from applicant.

Due to the introduction of Castaic water into the water system, there will be more leakage from old steel mains, any deteriorated services, and customer piping. The following excerpt from Manetta's testimony illustrates the problem:

> "EXAMINATION
> BY ALJ LEVANDER
>
> "Q I assume that as a result of the scaling from the inside of existing pipes you're also going to be running into customers with more leaks than in the past.
>
> "A In some of the very old systems that we've acquired where the scale is holding the pipe together, it seems like some of that old galvanized pipe is pretty well shot on the customer's side of the services."

Applicant's flat rate customers are on an old undersized steel system. Applicant should replace a relatively small portion of its system[7/] to reduce leaks and permit metering of the remaining flat rate water users.

7/ Schedule D.3.B. of applicant's 1981 Annual Report shows (1) the following footages and diameters of small steel mains: 825 feet - 3-inch, 11 feet - 4-inch, and 548 feet - 6-inch; and (2) a total footage of steel mains of 14,318 feet out of 837,719 feet of main in the system.

As a conservation measure, applicant should periodically advise its customers on how to detect leaks in their house and yard piping and it should spot-check for likely sources of leaks on its system.

Applicant could determine whether pressure-actuated valves could be installed in the vicinity of the seismically active areas which would close if there is a major main break, but would not close due to heavy water use.

Applicant should attempt to secure the cooperation of its customers in reducing water theft. It should periodically notify each of its customers of its estimates of the additional water and fuel costs its customers are paying due to water theft and encourage its customers to notify the sheriff's office if they notice anyone filling a tank truck from an unmetered fire hydrant. Applicant's crews could use mobile radio equipment or telephones to report water thefts they observe.

Applicant may be able to improve its conservation efforts by reviewing the adequacy of its testing procedures for source of supply meters and making appropriate changes.

Balancing Account Adjustments

Applicant requests that the net balance in its purchased water and purchased power balancing accounts be amortized over 36 months, at the cutoff time in this proceeding, to roughly parallel the interval between its general rate increases. Applicant concurs with the staff proposal to amortize the $286,200 overcollection balance in these accounts as of December 31, 1981 over the three years 1982 through 1984.

But the three-year amortization does not adequately address the impact on applicant's customers of increasing rates by a large amount in 1982 and by relatively small amounts in 1983 and in 1984. This decision reduces the proposed 1982 rate increase by providing for a one-year amortization of the balancing accounts. Changes in electric rates may alter the electric balancing account amortization period. Applicant may request a rate offset to recover increases in its purchased power expense when the overcollection in its purchased power balancing account has been amortized.

Applicant does not have a purchased gas balancing account at this time. If and when applicant files an advice letter seeking a purchased gas cost offset, it can establish a purchased gas cost balancing account.

We will establish negative amortization billing factors which reduce the adopted quantity rates during their respective amortization periods. The negative amortization factors per hundred cubic feet (Ccf) of water sold will be indicated by footnote on applicant's metered rate schedule. At the end of each amortization period applicant should file an advice letter to eliminate the appropriate billing amortization factors.

Tax Initiative Account

Applicant believes that D.93147 dated June 2, 1981 in OII 19 leaves open the disposition of the balance in its TIA in this proceeding; since its earnings were low due in part to the delay in securing rate relief, it should not be further penalized by refunding the TIA balance to its customers. Therefore, it requests that the $113,149 overcollection in its TIA be transferred to surplus.

The addition of Article XIII.A. to the Constitution of the State of California placed limits on the amount of ad valorem tax on real property and places limits on increases on the assessed values of real property. The Commission opened OII 19 to reduce utility and certain transportation rates to reflect lower levels of property taxes. The TIA mechanism was established to help achieve such rate reductions. Applicant was required to establish a TIA.

The Commission would be discriminating in favor of applicant if it authorized the transfer of applicant's TIA overcollections to its surplus. Any utility which did not achieve its authorized rate of return during the period it maintained a TIA could request that type of treatment. Many of these companies have reduced their rates to refund TIA overcollections. In that context the delay in processing A.57462 is not relevant.

Applicant's request to retain the balance in its TIA is similar to Edison's request to retain the overcollections generated by operation of Edison's fossil fuel clause. The Commission provided Edison with a mechanism to permit expeditious rate adjustments to offset rapidly increasing fossil fuel expense costs. Edison sought to retain revenues it collected in excess of its fossil fuel expenses. One of Edison's arguments for retention of its overcollections was that it had not achieved its authorized rate of return. In D.85731 we ordered Edison to refund those overcollections over a 36-month period. In Southern California Edison Co. v Public Utilities Com. (1978) 20 C 3d 813, the California Supreme Court affirmed the Commission order. Footnote 8 of the court's decision states:

> "Edison's misconception also underlies its contention that it is entitled to keep these overcollections because during the years in question its actual rate of return averaged less than the minimum reasonable rate previously authorized by the commission. The contention fails for two reasons. First, as noted above, Edison was not entitled to earn a profit on its expenses. Second, even its lawful profit was not guaranteed. A utility is entitled only to the opportunity to earn a reasonable return on its investment; the law does not insure that it will in fact earn the particular rate of return authorized by the commission, or indeed that it will earn any net revenues." (Citations omitted.)

The court made the distinction between revenues derived by general ratemaking processes and revenues designed to offset specific expenses. Where a specific provision is made which ties revenues to a specific item of expense, overcollections should be returned to a utility's ratepayers whether the overcollection is to offset fuel expenses or a property tax expense.

The ordering paragraphs in D.93147 relevant to applicant's proposal are:

> "1. All Tax Initiative Accounts (TIAs) are terminated on December 31, 1980 and the balances therein shall be addressed and applied to rates in the earliest practicable offset or general rate proceeding following the date of this order.
>
> "2. All issues respecting each respondent's TIAs are reserved for hearing in appropriate rate proceedings."

The TIA issue in this proceeding is how to amortize the fixed balance in applicant's TIA. Rapid amortization of both balancing account and TIA balances could pose a cash-flow problem for applicant. We do not believe that the shorter amortization period used for the rapidly changing balancing accounts should be adopted for amortization of the TIA. Since the TIA is a fixed charge, we will reduce applicant's service charges at rates designed to amortize the TIA over a 30-month period which would terminate near the beginning of the first test year in applicant's next scheduled general rate proceeding. The adjustment should be applied to all billings until the TIA is fully amortized. Applicant should supply the Commission with annual calculations of the TIA balance until it shows that the TIA has been fully amortized.

Appendix C contains the derivation of the TIA service charge adjustments, balancing account adjustment factors per Ccf of sales for purchased water and purchased power, adopted quantities, and relevant statistical information. Appendix C also shows income tax calculations for 1982 based on the rates contained in Appendix A authorized in this decision, and for 1983 based on the conditionally authorized rates contained in Appendix B.[8/]

Rental Expenses

Applicant's 1982 estimate of $427,400 for rental expense consists of rentals for storage tanks (83%), office equipment (10%), and meters and miscellaneous items (7%). Its rental expenses more than doubled between 1980 and 1981 (from $181,070 to $404,102) primarily due to rentals on four storage tanks with a capacity of 10 million gallons. Applicant estimates its rental expenses will increase to $430,000 in 1983.

In D.91372 the Commission encouraged applicant to purchase rather than rent storage equipment when it was in a position to do so (see mimeo. page 21). Applicant has no plans for leasing additional storage tanks at this time and it is no longer installing leased meters.

These rental expenses constitute a significant portion of applicant's total revenue requirements for the test years. After review, the staff concurs with applicant's rental expense estimates. We find those rental expenses to be reasonable and adopt them in this proceeding. However, if applicant expands

8/ Rates conditionally authorized for 1984 are based on applicant's operational attrition.

its use of leased water system plant in the future, we would test the reasonableness of the new rentals against the additional revenue requirement resulting from applicant's ownership of that plant in a future rate proceeding. Applicant would be required to make that comparison in an exhibit which uses the then authorized rate of return to establish earnings on company-owned plant. This requirement would not apply to office and communication equipment, vehicles, construction equipment, or to communication lines.

Payroll Taxes

We will adopt the staff's estimate of payroll taxes to conform with the adopted payroll expenses.

Federal Income Taxes

Applicant's revised estimates increase income taxes due to ERTA and to rate base changes by $79,900 for 1982 and $135,800 for 1983. We will require applicant to provide its customers with a notice, Appendix D, explaining the impact of ERTA on the rates authorized in this decision.

The income tax estimates of applicant and the staff differ because of differences in their respective estimates of revenues and expenses as described above and to applicant's inadvertent use of 1981 tax rates in calculating 1982 and 1983 federal income taxes. The staff used the 1982 and 1983 rates contained in the ERTA. At authorized rates $38,580 of the $311,140 federal income tax for 1982 is attributable to ERTA. The corresponding amounts for 1983 are $30,590 out of $367,570.

Summary of Earnings

There is no disagreement between applicant and the staff on other items included in applicant's summary of earnings, e.g., depreciation expense and rate. Tables 1 and 2 show the estimates of applicant and the staff and adopted revenues and expenses at the adopted rate of return of 13.01% on rate base for test years 1982 and 1983. Since the balancing account and TIA amortizations will not coincide with the test years, they will be treated outside of the summary of earnings.

Both applicant and the staff reduced the 1982 and 1983 rate bases by the estimated reserve for deferred income tax as a consequence of the normalization treatment required by ERTA. The amount of these amortizations are $12,300 in 1982 and $52,900 in 1983. The resulting net adjusted rate bases are $4,357,400 for 1982 and $4,731,400 for 1983.

The increase authorized for 1982 is $1,107,500 (41.05%). The conditionally authorized increase for 1983 is $369,700 (9.28%) over 1982 revenues.

TABLE 1

SANTA CLARITA WATER COMPANY

SUMMARY OF EARNINGS
Estimated Results of Operations
Test Year 1982

Item	Present Rates: Applicant	Present Rates: Staff	Present Rates: Adopted	Authorized Rates
Operating Revenues	$2,698,000	$2,698,000	$2,698,000	$3,805,500
Deductions:				
Purchased Water	390,800	390,800	390,800	390,800
Purchased Power	665,300	665,300	647,600	647,600
Payroll	504,100	486,100	486,100	486,100
Rents	427,400	427,400	427,400	427,400
Other O&M Expenses	276,500	276,500	276,500	276,500
Admin. & Gen. and Misc.	251,400	251,400	251,400	251,400
Subtotal	2,515,500	2,497,500	2,479,800	2,479,800
Depreciation Expense	150,500	150,500	150,500	150,500
Taxes Other Than on Income	178,800	177,300	177,300	177,300
Balancing Account Adj.	-	(95,400) a/	b/	b/
Tax Initiative Account	-	-	c/	c/
Income Taxes	100	100	200	431,000
Total Deductions	2,844,900	2,730,000	2,807,800	3,238,600
Net Operating Revenue	(146,900)	(32,000)	(109,800)	566,900
Depreciated Rate Base	4,357,400	4,357,400	4,357,400	4,357,400
Rate of Return	(Loss)	(Loss)	(Loss)	13.01%

(Red Figure)

a/ Applicant concurs with this adjustment based upon a 36-month amortization of the $286,200 balance in applicant's purchased electric power and purchased water balancing accounts.

b/ The rates contained in Appendix A reflect negative amortization factors of $0.0090 per Ccf for purchased electric power and $0.0605 per Ccf for purchased water to amortize the $286,200 over 12 months beginning on the effective date of the rates in Appendix A.

c/ The rates contained in Appendix A reflect negative service charge adjustments to amortize the $113,149 overcollection in applicant's TIA over 30 months beginning on the effective date of the rates in Appendix A.

TABLE 2

SANTA CLARITA WATER COMPANY

SUMMARY OF EARNINGS

Estimated Results of Operations
Test Year 1983

Item	Present Rates: Applicant	Present Rates: Staff	Present Rates: Adopted	Authorized Rates
Operating Revenues	$2,824,700	$2,824,700	$2,824,700	$4,352,800
Deductions:				
Purchased Water	649,700	650,000	650,000	650,000
Purchased Power	692,400	692,400	673,500	673,500
Payroll	555,700	555,800	555,800	555,800
Rents	430,000	430,000	430,000	430,000
Other O&M Expenses	304,000	304,000	304,000	304,000
Admin. & Gen. and Misc.	274,100	274,100	274,100	274,100
Subtotal	2,905,900	2,906,300	2,887,400	2,887,400
Depreciation Expense	155,100	155,100	155,100	155,100
Taxes Other Than on Income	203,200	203,200	203,200	203,200
Balancing Account Adj.	-	(95,400)a/	b/	b/
Tax Initiative Account	-	-	c/	c/
Income Taxes	100	100	200	491,500
Total Deductions	3,264,300	3,169,300	3,200,600	3,737,200
Net Operating Revenue	(439,600)	(344,600)	(375,900)	615,600
Depreciated Rate Base	4,731,400	4,731,400	4,731,400	4,731,400
Rate of Return	(Loss)	(Loss)	(Loss)	13.01%

(Red Figure)

a/ Applicant concurs with this adjustment based upon a 36-month amortization of the $286,200 balance in applicant's purchased electric power and purchased water balancing accounts.

b/ The 1983 rates contained in Appendix B reflect negative amortization factors of $0.0090 per Ccf for purchased electric power and $0.0605 per Ccf for purchased water to amortize the remaining portion of the $286,200 overcollection in applicant's balancing accounts.

c/ The rates contained in Appendix B reflect negative service charge adjustments to amortize the $113,149 overcollection in applicant's TIA over 30 months.

Operational Attrition

Exhibit 37 in A.57462 is the water supply contract between applicant and Castaic. The following water price schedule is contained in the contract:

Year	Price Per Acre-Foot
1980	$ 65
1981	65
1982	65
1983	100
1984	101
1985	107

Applicant's purchased water expenses are based on contract rates and contract quantities. When applicant uses these purchased water expenses in its operational attrition studies, it trends an increase of one-half of the 1983 purchased water price increase, or $17.50 per acre-foot into its 1984 attrition allowance.

At a purchased water level of 7,000 AF in 1984, applicant's expenses would increase by $7,000 because of the increase in water rates, but its trended operational attrition estimate would include a 1984 offset attributable to purchased water price increases of $122,500.

Applicant's witness confirms that an offset for purchased water rate increases is not needed if the 1983 step rate increase includes the higher cost of purchased water. Since higher expenses for items covered by balancing accounts may be recovered in an offset proceeding and the amortization period for the balancing accounts (and the TIA) do not coincide with the test years, it would be reasonable to exclude the impact of those expenses in the calculation of operational attrition.

On this basis the attrition rates between 1981 and 1982 and between 1982 and 1983 are 3.08% and 1.37%, respectively. The average attrition rate for the two periods is 2.22%. The 1984 offset increase required for operational attrition is an increase of $217,000 (4.98%).

Rate of Return

Applicant's Testimony and Argument

Applicant's direct testimony on rate of return is limited to a statement of its overall request for a rate of return of 15.80% designed to yield a return of 17.0% on equity, based on applicant's capital structure and debt cost on May 31, 1981.

When cross-examined, applicant's consultant set forth areas he considered in making that recommendation as follows: (a) the utility's owners are entitled to earnings on their investment equal to or in excess of available alternative debt investments and (b) changing circumstances affecting applicant between the time applicant files its Notice of Intent and the issuance of this decision, such as prospects for customer growth and demands for equity funds from applicant's owners. He also testified that the determination of a fair rate of return includes an assessment of risk which is most commonly measured by the utility's capital structure or the relationship of its equity to debt. In a comparison with other California Class A water utilities, he points out that some of those utilities have 15 to 25 districts. He believes applicant's earnings tend to be much more volatile than the earnings of a company like California Water Service Company (CWS) which has over 20 districts.

In redirect testimony, he supplied recent financial information (Exhibit 6) which he believes supports his original rate of return recommendation. The exhibit shows long-term bond yields for power and communication utilities ranging from 16.40% to 16.57%, a prime rate of 15-3/4%, a 17.38%

preferred stock yield for Pacific Gas and Electric Company priced to yield 15.80%, and the rate of return authorized to CWS' Hermosa-Redondo District in D.82-01-51 dated January 5, 1982 in A.60568 of 11.58% which allows a 14.50% return on equity.

Applicant argues that its risk from the closure of a major industrial plant is greater than the risk to CWS from a similar occurrence in one of its districts; if its request for 17.0% return on equity is too high, the staff's 13.5% recommendation is too low.

Staff's Testimony and Argument

The staff accountant in charge of the rate of return section in the Revenue Requirements Division testified that a 13.01% rate of return which provides a 13.50% rate of return on common equity would be reasonable. In making his recommendation, he reviewed applicant's results of operations report for 1981 to 1983 and the comparable staff report. He also analyzed applicant's past financial history, past earnings performance, trends in interest rates, current economic conditions, regulatory environment, and other factors. He testified that (a) applicant's capital structure contains a high equity ratio of 73%, (b) applicant has no major financing planned for the test years, and (c) a 13.50% return on equity reflects adequate financial consideration for the lower risk associated with applicant's strong equity position. This return provides a 4.12 x after-tax coverage which should allow applicant to obtain future financing, if needed, at reasonable rates, provides moderate additions to retained earnings, and permits applicant to provide reasonable service to its customers. He concurs with applicant's capital ratios, but differs with applicant's estimate of interest on debt. He used applicant's average cost of debt in 1981 for the test year. He notes that a portion of applicant's debt is a loan with a rate of 1% over the prime rate; portions of applicant's debt are retired annually on a proportional basis.

The following tabulations contain the capital ratios and costs developed by applicant and by the staff and show a difference of $240,228 in recommended revenue requirements for 1982.

Component	Capital Ratios	Cost Factors	Weighted Cost
Applicant's Requested Rate of Return			
Long-term Debt	26.97%	12.60%	3.40%
Common Equity	73.03	17.00	12.41
Total	100.00%		15.81%
Staff Accountant's Recommended Rate of Return			
Long-term Debt	27.00%	11.72%	3.16%
Common Equity	73.00	13.50	9.85
Total	100.00%		13.01%

Difference in 1982 Revenue Requirement

Item	Weighted Cost Difference	Staff Rate Base	Net-to-Gross Multiplier	Revenue Requirement
Long-term debt	.24%	$4,357,000	-	$ 10,457
Common Equity	2.56	4,357,000	x 2.06	229,771
Total	2.80%			$240,228

Under cross-examination, the staff witness testified that (a) a return of 17% is extraordinarily high for a water utility; (b) he reviewed authorized rates of return and capital ratios of Class A water utilities; (c) the Commission authorized returns on equity ranging from 13.2% on common equity for the multidistrict Citizens Utilities Company of California (based on the capital structure of its parent) to 14.5% for CWS; and (d) applicant had the highest equity ratio of any of the Class A utilities he mentioned. He further testified that his recommendation was not limited to capital structure considerations. He also gave consideration to the overall rate of return and the percentage increase in rates requested by applicant. Since applicant had no financing plans scheduled for the next three years, he questioned the relevance of a comparison of applicant to Pacific Gas and Electric Company in assessing risk. He contrasts applicant's pro forma ratemaking adjustments showing losses for 1981 with its ability to institute a dividend policy for 1982 (which he considers appropriate). He believes that the magnitude of applicant's below-the-line income tends to lessen its risk.[9/]

The staff argues that its witness has looked at returns on equity for water companies and has looked at applicant's financing requirements. Furthermore, staff counsel notes that applicant's witness agrees with the concept that the higher the equity, the lower the risk to a company.

Discussion

Applicant has not demonstrated its need for a 17.0% return on equity. In recent years, applicant has had to make major modifications to its system to accept deliveries from Castaic, cut back on its well production, and blend, store, and pump blended water to its customers. In addition, it has constructed plant to accommodate customer growth. Its investment in plant has grown, but it has reduced its plant investment by leasing storage tanks and other facilities. It has also required developers to contribute the cost of major plant additions. Applicant is not now planning to lease additional plant and it does not expect to issue additional debt or securities to finance new construction through 1984. Applicant has a very high equity ratio and ample after-tax debt coverage.

9/ Applicant's 1981 Annual Report shows nonoperating revenues of $121,725 (including $121,657 of interest revenues) and interest deductions of $122,616, including $98,335 of interest on its long-term debt.

Operational attrition reduces applicant's earnings. However, the increase in Castaic's rates accounts for the bulk of the operational attrition projected by applicant for 1983. Since the 1983 rates adopted in this decision give recognition to that increase, applicant has not established that its risk is comparable to other Class A water utilities or to communications and energy companies.

The factors considered by the Commission staff are relevant and its conclusions are reasonable. We will adopt the staff's rate of return recommendation.

Rate Design

Applicant proposes to increase its metered service charges and commodity rates by an equal percentage. Applicant's witness expressed surprise that the Commission did not establish a lifeline block in its rates in D.91372. He correctly anticipates Commission adoption of a lifeline block in this proceeding in accordance with the Hydraulic Branch's current model rate structure policy which includes a lifeline allowance of 300 cubic feet per month and a second block rate which is not more than 50% higher than the first block rate, and a service charge in its metered service tariff.

Applicant's consultant testified that 33% of applicant's revenues are contained in its present service charges in accordance with staff policy guidelines at the time its rates were established; and that an equal percentage increase in fixed and commodity charges at this time is reasonable due to seasonal variations in water use which can produce a cash-flow problem when water revenues drop due to decreased sales in cold and wet weather. He also noted that the percentage of fixed charges sought by applicant was lower than the percentage recommended to the Commission by the California Water Association.

Applicant's present and proposed metered rates are tabulated below:

	Per Meter Per Month			
		Proposed		
	Present[a]	1982	Effective 1/1/83	Effective 1/1/84
Service Charge:				
For 5/8 x 3/4-inch meter	$ 4.58	$ 6.98	$ 7.55	$ 8.05
For 3/4-inch meter	6.00	9.13	9.90	10.55
For 1-inch meter	9.03	13.73	14.89	15.88
For 1½-inch meter	12.67	19.27	20.90	22.28
For 2-inch meter	16.34	24.85	26.94	28.72
For 3-inch meter	30.41	46.25	50.15	53.47
For 4-inch meter	41.56	63.20	68.53	73.05
For 6-inch meter	69.93	106.40	115.30	122.90
For 8-inch meter	101.40	154.00	167.00	178.00
For 10-inch meter	124.70	190.00	205.00	219.00
Quantity Rate:				
For all water delivered, per 100 cubic feet	$0.45	$0.684	$0.742	$0.791

a/ Service charges at present rates include surcharges for each meter size to offset lost fire protection revenues.

The adopted metered rates tabulated below maintain the percentage of fixed charges sought by applicant and adopt a lifeline quantity block of 3 Ccf per month. That lifeline block will give small users a lower-than-average percentage increase in rates.

	Per Meter Per Month Authorized Rates c/		
	1982	Effective 1/1/83	Effective 1/1/84
Service Charge:a/			
For 5/8 x 3/4-inch meter	$ 6.90	$ 7.50	$ 7.87
For 3/4-inch meter	8.90	10.35	10.85
For 1-inch meter	10.75	12.70	13.35
For 1½-inch meter	14.30	16.95	17.80
For 2-inch meter	19.35	22.90	24.05
For 3-inch meter	35.80	42.40	44.50
For 4-inch meter	48.65	57.65	60.50
For 6-inch meter	80.85	95.80	100.55
For 8-inch meter	120.20	142.45	149.55
For 10-inch meter	148.80	176.40	185.20
Quantity Rates:b/			
First 300 cu.ft., per 100 cu.ft.	$ 0.45	$ 0.50	$ 0.525
Over 300 cu.ft., per 100 cu.ft.	0.573	0.691	0.726

a/ Property tax accruals in a tax initiative account are being amortized over 30 months through reductions in service charges at a rate of approximately 3.6% of the utility's 1982 service charge revenues.

b/ Purchased water and purchased electric balancing account overcollections are being amortized through reductions in all quantity rates of $0.0603 and $0.0090 per Ccf, respectively, for approximately 12 months in 1982 and 1983.

c/ The tabulated rates reflect the amortizations described above. See pages 3 and 4 of Appendix C for further detail.

Applicant's consultant proposes no change in its limited flat service rates as an incentive to applicant to meter those customers. However, applicant does not suggest any reduction in its revenue requirements related to that posture. Applicant's costs are increasing to serve those customers. Therefore, it is appropriate to increase those flat rates by the same percentages as metered rates. Present and authorized flat rates are tabulated below:

	Monthly Rates			
	Present	1982	1983	1984
1. For each residence, including 1 lot of 5,000 square feet or less per service	$5.00	$6.50	$7.65	$8.10
For each additional 100 square feet of lot area	.025	.030	.038	.040
2. For each residential unit, including 1 lot, in the Friendly Village	4.00	5.20	6.10	6.45

Findings of Fact

1. Applicant proposes a 1982 increase in revenues of $1,394,000 or 51.7% and offset increases of $359,200 or 8.4% in 1983 and $307,200 or 6.6% in 1984. Applicant's customers complained about the magnitude of the 1982 increase and the total increases proposed.

2. It would be reasonable to lessen the magnitude of the 1982 increase authorized by amortizing overcollections in applicant's purchased water and purchased power balancing accounts over 12 months rather than over the 36-month period proposed by applicant and the staff. Updated purchased power and purchased gas rates should be used to further reduce authorized 1982 rates.

3. The Commission opened OII 19 to reduce utility and certain transportation rates to reflect lower levels of property taxes. The TIA mechanism was established to help achieve such rate reductions. Applicant was required to establish a TIA.

4. In D.93147 the Commission ordered termination of TIAs on December 31, 1980 and required affected companies to apply TIA balances to rates in future rate proceedings.

5. Applicant's proposal to transfer the $113,149 overcollection in its TIA to surplus is inconsistent with the requirement that the TIA balances be applied to rates.

6. The TIA balance should be amortized in applicant's rates. A 30-month amortization period is reasonable. Since the TIA is a fixed charge, the amortization should reduce applicant's service charges.

7. Since the balancing account and TIA amortizations do not coincide with the test years, they should be considered outside of the adopted results of operations.

8. The adopted summaries of earnings shown in Tables 1 and 2 are reasonable and should be adopted.

9. Information shown in Tables 1 and 2 properly reflect the consequences of ERTA and of our decision in OII 24.

10. Applicant will have operational attrition of 2.22% between 1983 and 1984.

11. The rates in Appendix A are reasonable and should be adopted. These rates reflect the amortization of applicant's TIA balance and of the balances in applicant's purchased water and purchased power balancing accounts.

12. The further increases authorized in Appendix B should be appropriately modified in the event the rates 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, and/or September 30, 1983, exceed a rate of 13.01%. The balancing account amortizations should not be considered in the computation of rate of return.

13. Applicant requests adoption of a rate of return of 15.80% to yield a 17.0% return on equity. Applicant's capitalization consists of 73% equity and 27% debt.

14. Applicant does not foresee a need for it to issue new stock or to obtain new long-term debt in 1982, 1983, or 1984.

15. A rate of return on equity of 13.50%, combined with a debt cost of 11.72% resulting in an overall rate of return of 13.01%, is reasonable for purposes of this proceeding.

16. Applicant has improved the quality of the water served its customers through blending of Castaic purchases with its well supplies.

17. Applicant's water losses are high and its expenses are increased due to extensive theft of water and to damage to its system in seismically active areas.

18. Applicant should provide its customers with information on how to detect water leaks and on the costs paid by its customers due to the theft of water, solicit customer cooperation in reducing water losses from theft and leakage, and implement the proposals discussed on pages 16 and 17 of this decision.

19. Applicant's water losses would be reduced by replacing old steel main in its water system.

Conclusions of Law

1. Revenue increases of $1,107,500 or 41.05% for 1982 and $369,700 or 9.28% for 1983 are reasonable based on adopted results of operations. A further increase in 1984 of $217,000 or 4.98% is reasonable based upon applicant's operational attrition of 2.22%.

2. Applicant should be authorized to file the rate schedules attached as Appendixes A and B subject to the conditions set forth in Finding 12.

3. The staff's metered rate design recommendation is reasonable and should be adopted. The rates for applicant's limited flat rate customers should be increased proportionately to the rates of its metered customers.

4. It would be unlawfully discriminatory to authorize applicant to retain the balance in its TIA. The amortization treatment described in Finding 6 is reasonable and should be adopted.

5. The rates in Appendix A are reasonable and should be adopted.

6. Since applicant needs additional revenue, the following order and rates should be effective the date of signature.

7. Applicant should be ordered to replace those portions of its water system which will be subject to increased leakage with the introduction of Castaic water, and should be ordered to report its progress on this matter to the Commission staff quarterly.

8. Applicant should be ordered to supply the Commission with annual calculations of TIA balance until it shows that the TIA has been fully amortized.

O R D E R

IT IS ORDERED that:

1. Santa Clarita Water Company (applicant) shall file the revised rate schedules in Appendix A in compliance with General Order Series 96 after the effective date of this order. The revised schedules shall apply only to service rendered on and after their effective date, which shall be 5 days after filing.

2. On or after November 15, 1982, applicant is authorized to file an advice letter, with appropriate workpapers, requesting the initial step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents-per-hundred cubic feet of water adjustment from Appendix B in the event that the 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 13.01%. Such filing shall comply with General Order Series 96. The requested step rates shall be reviewed by

the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised 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 the effective date.

3. On or after November 15, 1983, applicant is authorized to file an advice letter, with appropriate workpapers, requesting the second step rate increases attached to this order as Appendix B, or to file lesser increase which includes a uniform cents-per-hundred cubic feet of water adjustment from Appendix B in the event that the 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 13.01%. Such filing shall comply with General Order Series 96. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised 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 the effective date.

4. Within 45 days from today, applicant shall mail to all its customers a bill insert notice as shown in Appendix D. Applicant shall also provide its customers with information on how to detect water leaks and on the costs paid by its customers due to the theft of water. Applicant shall solicit customer cooperation in reducing water losses from theft and leakage.

5. Applicant shall replace that portion of its steel mains which will be subject to increased leakage with the introduction of Castaic water into the water system. Applicant shall report to the Commission staff quarterly of its progress on this matter.

6. Applicant shall supply the Commission with annual calculations of TIA balance until it shows that the TIA has been fully amortized.

This order is effective today.

Dated AUG 4 1982, at San Francisco, California.

JOHN E. BRYSON
President
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
COMMISSIONERS

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

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

Joseph E. Bodovitz, Executive Director

SANTA CLARITA WATER COMPANY

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Bouquet Canyon and vicinity, near Saugus, Los Angeles County.

RATES

	Per Meter Per Month	
Quantity Rates: a/		
First 300 cu.ft., per 100 cu.ft.	$ 0.450	(I)
Over 300 cu.ft., per 100 cu.ft.	0.573	
Service Charge: b/		
For 5/8 x 3/4-inch meter	$ 6.90	
For 3/4-inch meter	8.90	
For 1-inch meter	10.75	
For 1½-inch meter	14.30	
For 2-inch meter	19.35	
For 3-inch meter	35.80	
For 4-inch meter	48.65	
For 6-inch meter	80.85	
For 8-inch meter	120.20	
For 10-inch meter	148.80	(I)

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

a/ These rates reflect negative amortization factors of $0.0090 per Ccf for purchased electric power and $0.0605 per Ccf for purchased water to amortize overcollections of $286,200 over 12 months.

b/ These rates reflect negative service charge adjustments to amortize $113,149 of overcollections in applicant's TIA over 30 months.

SANTA CLARITA WATER COMPANY

Schedule No. 2L

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Bouquet Canyon and vicinity, near Saugus, Los Angeles County.

RATES

	Per Service Connection Per Month	
1. For each residence, including one lot of 5,000 square feet or less per service	$ 6.50	(I)
For each additional 100 square feet of lot area	0.030	|
2. For each residential unit, including one lot in the Friendly Village	5.20	(I)

(End of Appendix A)

APPENDIX B
Page 1

SANTA CLARITA WATER COMPANY

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 1-1-83	Effective Date 1-1-84
Metered Service		
Service Charges: b/		
For 5/8 x 3/4-inch meter	$ 0.60	$ 0.37
For 3/4-inch meter	1.45	0.50
For 1-inch meter	1.95	0.65
For 1½-inch meter	2.65	0.85
For 2-inch meter	3.55	1.15
For 3-inch meter	6.60	2.10
For 4-inch meter	9.00	2.85
For 6-inch meter	14.95	4.75
For 8-inch meter	22.25	7.10
For 10-inch meter	27.60	8.80
Quantity Rates		
For the first 300 cu.ft., per 100 cu.ft. ...	0.050 a/	0.025
Over 300 cu.ft., per 100 cu.ft.	0.118 a/	0.035

a/ These rates reflect negative amortization factors of $0.0090 per Ccf for purchased electric power and $0.0605 per Ccf for purchased water to amortize overcollections of $286,200 over 12 months.

b/ These rates reflect negative service charge adjustments to amortize $113,149 of overcollections in applicant's TIA over 30 months.

APPENDIX B
Page 2

SANTA CLARITA WATER COMPANY

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	
	1-1-83	1-1-84
Limited Flat Rate Service		
1. For each residence, including one lot of 5,000 square feet or less per service	$ 1.15	$ 0.45
For each additional 100 square feet of lot area	0.008	0.002
2. For each residential unit, including one lot in the Friendly Village	0.90	0.35

(End of Appendix B)

SANTA CLARITA WATER COMPANY

Adopted Quantities

	1982 Ccf (1,000)	1983 Ccf (1,000)
1. **Water Production:**		
Purchased Water	2,613.6	2,831.4
Wells	2,178.0	2,178.0
	4,791.6	5,009.4
2. **Electric Power:** (Supplier: Edison 5/4/82)		
Kilowatt-hour (kWh)	8,667,700	9,057,700
Cost	$612,800	$638,700
Cost per kWh	$0.06628	$0.06628
3. **Natural Gas:** (Supplier: SCG 5/4/82)		
Therms	67,000	67,000
Cost	$34,800	$34,800
Cost per Therm	$0.51712	$0.51712
4. **Ad Valorem Taxes:**	$108,000	$113,800
Effective Tax Rate	1.3775%	1.3775%
5. **Net-to-Gross Multiplier:**	2.05713	
6. **Uncollectible Rate:**	0.419%	

APPENDIX C
Page 2

SANTA CLARITA WATER COMPANY

Adopted Quantities

7. Metered Water Sales Used to Design Rates:

	Range-Ccf	1982	1983
Block 1	0 - 3	397,640	418,930
Block 2	Over 3	3,734,660	3,892,070
Total Usage		4,132,300	4,311,000

8. Number of Services:

	No. of Services		Usage-KCcf		Average Usage Ccf/Yr.	
	1982	1983	1982	1983	1982	1983
Residential	11,181	11,804	2,971.9	3,137.5	265.8	265.8
Business	471	480	681.5	694.6	1,447.0	1,447.0
Industrial	25	25	98.6	98.6	3,944.0	3,944.0
Public Authorities	41	41	312.7	312.7	7,626.8	7,626.8
Other Utilities	6	6	22.1	22.1	3,683.3	3,683.3
Construction	a/	a/	40.0	40.0	a/	a/
Flat Rate	19	19	14.3	14.3	752.6 b/	752.6 b/
Subtotal	11,743	12,375	4,141.1	4,319.8		
Private Fire Protection	54	54				
Total	11,797	12,429				
Water Loss 16%			650.5	689.6		
Total Water Produced			4,791.6	5,009.4		

a/ Variable.

b/ Estimate based on composite of metered average use for residential and business customers.

APPENDIX C
Page 3

SANTA CLARITA WATER COMPANY

Adopted Quantities

9. Number of Services (by meter size):

Meter Size	1982	1983
5/8 x 3/4-inch	6,884	6,951
3/4-inch	3,869	4,389
1-inch	523	565
1½-inch	61	62
2-inch	317	319
3-inch	19	19
4-inch	32	32
6-inch	17	17
8-inch	2	2
10-inch	0	0
	11,724	12,356

10. Number of Flat Rate Services: 19 19

11. Service Charges, Excluding Reductions to Amortize TIA:

Meter Size	1982
5/8 x 3/4-inch	$ 7.16
3/4-inch	9.24
1-inch	11.16
1½-inch	14.85
2-inch	20.09
3-inch	37.17
4-inch	50.51
6-inch	83.95
8-inch	124.81
10-inch	154.50

APPENDIX C
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SANTA CLARITA WATER COMPANY

Adopted Quantities

12. TIA Reductions in Service Charges:

Meter Size	1982, 1983 and 1984 Reduction
5/8 x 3/4-inch	$0.26
3/4-inch	0.34
1-inch	0.41
1½-inch	0.55
2-inch	0.74
3-inch	1.37
4-inch	1.86
6-inch	3.10
8-inch	4.61
10-inch	5.70

13. Rates excluding Balancing Account Amortization:

Range-Ccf	1982
0 - 3, per 100 cu.ft.	$0.519
Over 3, per 100 cu.ft.	0.642

14. Balancing Account Amortization:

	Cost Per Ccf
Purchased Water	$0.0605
Purchased Power	0.0090
	$0.0695

APPENDIX C
Page 5

SANTA CLARITA WATER COMPANY

Income Tax Calculation
at Authorized Rates

Item			1982	1983
Operating Revenues			$3,805,500	$4,352,800
Deductions:				
Oper. and Maint. Expenses			2,479,800	2,887,400
Taxes Other Than on Income			177,300	203,200
Interest			93,900	81,600
Subtotal			2,751,000	3,172,200
State Taxable Income before Depreciation			1,054,500	1,180,600
State Tax Depreciation			211,100	225,300
State Taxable Income			843,400	955,300
State Tax @ 9.6%			81,000	91,700
Federal Tax Depreciation			+41,400	+49,500
Federal Taxable Income			803,830	913,091
	1982	1983		
First $ 25,000 @	16%	15%	4,000	3,750
Next 25,000 @	19%	18%	4,750	4,500
Next 25,000 @	30%	30%	7,500	7,500
Next 25,000 @	40%	40%	10,000	10,000
Over 100,000 @	46%	46%	323,750	374,050
Total Federal Income Tax			350,000	399,800
Total Taxes on Income			431,000	491,500

(END OF APPENDIX C)

APPENDIX D

N O T I C E

$38,600 of the recent rate increase granted to Santa Clarita Water Company was made necessary by changes in tax laws proposed by the President and passed by Congress last year. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

For a more detailed explanation of this tax change, send a stamped self-addressed envelope to:

Consumer Affairs Branch
Public Utilities Commission
107 South Broadway
Los Angeles, CA 90012

(END OF APPENDIX D)

Applicant's proposal for transferring its Tax Incentive Account (TIA) balance overcollection to surplus is inconsistent with our prupose in establishing such accounts, namely to flow through property tax reductions in rates. Applicant is ordered to amortize its TIA balance over 30 months. The balancing account and TIA amortizations do not coincide with the test years adopted in this decision. Therefore, they are not included in the adopted summaries of earnings. But the level of authorized rates is reduced to reflect these amortizations.

This decision reflects the consequences of ERTA and of our decision in OII 24. Appendix D explains the impact of ERTA on the rates authorized in this decision.

Notices and Hearing

Notices of the hearing of the original and amended applications for rate increases and of a public meeting held in Valencia on December 14, 1981 were provided by mailing bill inserts to each of applicant's customers, by newspaper publication, and by posting. Applicant provides water service to cover 11,000 customers.

An evidentiary hearing was held on this application before Administrative Law Judge Jerry Levander in Los Angeles on February 16, 1982. The matter was submitted on that day subject to receipt of a late-filed exhibit, which has been received.

As a conservation measure, applicant should periodically advise its customers on how to detect leaks in their house and yard piping and it should spot-check for likely sources of leaks on its system.

Applicant could determine whether pressure-actuated valves could be installed in the vicinity of the seismically active areas which would close if there is a major main break, but would not close due to heavy water use.

Applicant should attempt to secure the cooperation of its customers in reducing water theft. It should periodically notify each of its customers of its estimates of the additional water and fuel costs its customers are paying due to water theft and encourage its customers to notify the sheriff's office if they notice anyone filling a tank truck from an unmetered fire hydrant. Applicant's crews could use mobile radio equipment or telephones to report water thefts they observe.

Applicant may be able to improve its conversation efforts by reviewing the adequacy of its testing procedures for source of supply meters and making appropriate changes. SS

Balancing Account Adjustments

Applicant requests that the net balance in its purchased water and purchased power balancing accounts be amortized over 36 months, at the cutoff time in this proceeding, to roughly parallel the interval between its general rate increases. Applicant concurs with the staff proposal to amortize the $286,200 overcollection balance in these accounts as of December 31, 1981 over the three years 1982 through 1984.

16. Applicant has improved the quality of the water served its customers through blending of Castaic purchases with its well supplies.

17. Applicant's water losses are high and its expenses are increased due to extensive theft of water and to damage to its system in seismically active areas.

18. Applicant should provide its customers with information on how to detect water leaks and on the costs paid by its customers due to the theft of water, solicit customer cooperation in reducing water losses from theft and leakage, and implement the proposals discussed on pages 17 and 18 of this decision.

19. Applicant's water losses would be reduced by replacing old steel main in its water system.

Conclusions of Law

1. Revenue increases of $1,107,500 or 41.05% for 1982 and $369,700 or 9.28% for 1983 are reasonable based on adopted results of operations. A further increase in 1984 of $217,000 or 4.98% is reasonable based upon applicant's operational attrition of 2.22%.

2. Applicant should be authorized to file the rate schedules attached as Appendixes A and B subject to the conditions set forth in Finding 12.

3. The staff's metered rate design recommendation is reasonable and should be adopted. The rates for applicant's limited flat rate customers should be increased proportionately to the rates of its metered customers.

4. It would be unlawfully discriminatory to authorize applicant to retain the balance in its TIA. The amortization treatment described in Finding 6 is reasonable and should be adopted.

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Consumer Affairs Branch
Public Utilities Commission
350 McAllister Street
San Francisco, CA 94102

(END OF APPENDIX D)