

Decision 83 10 045 OCT 19 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHERN CALIFORNIA EDISON)
COMPANY for authority to increase)
rates charged by it for water)
service on Santa Catalina Island.)

Application 83-01-35
(Filed January 18, 1983)

Richard K. Durant and James M. Lehrer, by
James M. Lehrer, Attorney at Law, for
applicant.
David Jinkens, for City of Avalon, interested
party.
Brian T. Cragg, Attorney at Law, for the
Commission staff.

O P I N I O N

Southern California Edison Company (Edison) seeks authority to increase rates for water service on Santa Catalina Island (Catalina). The rate increases proposed in the application are in steps designed to increase full-year revenues in test year 1983 by \$317,400, or 99.0%, over the revenues at present rates; in test year 1984 by \$317,700, or 49.8%, over revenues from rates proposed for 1983; and in test year 1985 by \$475,900, or 49.8%, over revenues from rates proposed for 1984. Edison also seeks authority to establish in its tariffs a Water Cost Adjustment Clause (WCAC).

The hearing in this matter was preceded by an informal public meeting held during the evening on March 8, 1983 at Catalina. The meeting was sponsored by Edison and the Commission staff to provide customers an opportunity to express their views

and to give Edison an opportunity to explain or respond in an informal setting. Twenty-one customers attended the meeting. They consider the proposed 386% increase in three steps inordinately large. There were no service complaints.

After due notice, public hearing in this application was held before Administrative Law Judge Main on June 13, 14, and 15, 1983. The first day of hearing was held at Catalina, in response to requests and because of the size of the requested rate increases. Statements in opposition to the level of the proposed rates were made by the mayor, a member of the city council, and the city manager of the City of Avalon and by both residential and business customers.

The remaining two days of hearing were held in Los Angeles. Edison presented testimony and exhibits through seven witnesses. Staff studies were presented by a utilities engineer. The matter was submitted subject to the receipt of a comparison exhibit (Exhibit 15) and briefs. Exhibit 15 was filed July 6, 1983, concurrent opening briefs were filed July 25, 1983, and the concurrent reply briefs were filed August 5, 1983.

Edison's Water Operations

Edison acquired the water system from the City of Avalon and the Avalon Public Service Company in October 1962. The water system is supplied from several resource types, which include a 1,189-acre-foot impounding reservoir, nine wells, and six spring sources.

Most of the water system resources and associated sources of supply and transmission and distribution plant serve the City of Avalon and its immediate environs. In addition, there are several isolated areas on the island which are served

by individual storage tank systems. Some of these isolated areas (such as White's Landing) are not physically interconnected with the main water system; other areas (such as the isthmus) are at least partially interconnected with the system.

Catalina is situated southwest of the Southern California coast. The island is approximately 76 square miles in area. It is generally mountainous, with elevations ranging from sea level to 2,100 feet above sea level. The island is approximately 21 miles in length; width ranges from 2,400 feet to 8 miles. There are 20 coves and bays along the island's 55 miles of coastline.

The main population center on Catalina is the City of Avalon which has a permanent population of 2,143. The economic base of the island is dominated by the tourist industry. In 1981, approximately 1,056,000 tourists visited the island. The transient population during the year fluctuates widely due to increased tourism during the summer months: on peak tourist days, the population reaches approximately 17,000 with an average daily (summer) population of 6,000.

Rate Increase Impact

The statements taken at the Catalina hearing from ratepayers including the City of Avalon representatives and residential and business customers stress that the proposed rate increases in three steps are much too large and will adversely affect Catalina's economy as well as place an excessive burden on low-income residents, many of whom are senior citizens. In addition, some of the statements stressed that Edison's Catalina utility operations are a minuscule part of its total operations.

To assess the impact of its proposed three-step water rate increase, Edison looked at (1) the rates for its three utility services on Catalina and (2) the recent shifts in Catalina electric revenue requirements to the mainland.

1. The typical residential bill runs \$89 per month on Catalina for water, gas, and electricity without the increase in water rates applied for in this application. If the Commission adopts Edison's position on estimated operating results for the test years as reflected in Exhibit 15 in this proceeding, the typical monthly residential bills for these three utility services would be \$97 for 1983, \$105 for 1984, and \$117 for 1985.
2. Through integrating electric rates with the mainland in 1983, as authorized by Decision (D.) 82-03-059 dated March 16, 1982 in Application (A.) 611038, approximately \$1 million in annual base rate revenue requirements was shifted from Catalina to mainland electric ratepayers. Also, sometime in 1984 the current Energy Cost Adjustment Clause (ECAC) surcharge for Catalina will terminate, resulting in an annual reduction of about \$250,000.^{1/}

With the shift in Catalina electric revenue requirements to the mainland and the forthcoming termination of the Catalina ECAC surcharge, Edison considers this application for a large increase in water rates to be timely. It is Edison's position

^{1/} The surcharge was established by D.93129 dated June 2, 1981 in A.59830 to amortize the amount in the Catalina Balancing Account upon merging Catalina ECAC rates with ECAC mainland rates. This ECAC merging also shifted approximately \$1 million in Catalina revenue requirements to mainland electric ratepayers.

that the rate increases are justified, will allow it to begin to earn a reasonable return on investment, and are structured to comply with the Commission's guidelines. These guidelines indicate that the ceiling on Class A water utilities is 50% in any given year, while for Class B - D water utilities it is 100% in any given year. Edison, currently a Class B water utility, will classify as a Class A water utility (average annual recorded revenues of \$750,000 and above) during 1984 if the requested increases are granted.

Rate of Return

Edison, in general, does not raise external funds for specific projects, but rather raises funds to meet its total capital requirements. Investors, according to Edison, therefore consider the risks associated with all of Edison's operations when determining the rate of return they require on investment. Thus, the cost of money to Edison is the same whether the funds are invested in water facilities on Catalina or an electric plant on the mainland. Edison states that because of the impact of increased rates on its water customers it is limiting its request in this application to only a portion of the relief necessary to provide the opportunity to earn a reasonable rate of return on Catalina water operations.

Specifically, Edison requested three consecutive increases in revenues of 100% in 1983, 50% in 1984, and 50% in 1985. As set forth in the estimated earnings summaries in Appendix D to the application, the requested increases yielded rates of return on rate base of 1.99% in 1983, 4.97% in 1984, and 9.78% in 1985. Staff considers these rates of return on rate base as being appropriate and not unreasonable in their respective test years.

As shown in our adopted results of operations (Table 1) the requested increases as modified in Exhibit 15 yield a 1.60% rate of return on rate base in 1983, a 4.25% rate of return on rate base in 1984, and an 8.47% rate of return on rate base in 1985. These rates of return are significantly below the 12.55% adopted by the Commission for 1983 in D.82-12-055 in A.61138, which was Edison's most recent general rate proceeding. We find them to be reasonable for Edison's Catalina water utility operations in the test years.

Results of Operation

During the course of the hearing Edison and staff reached agreement on a number of differences in their respective estimates of Edison's operating revenues, operating expenses, and rate base for test years 1983, 1984, and 1985. As a result, the amounts in dispute have been narrowed principally to the estimates of purchased power and payroll expense in operating expenses and to working cash allowance in rate base.

In Table 1, which follows, the results for the test years, as shown in late-filed Exhibit 15 (comparison exhibit), and the operating results we adopt for Edison's Catalina water operations are set forth.

Purchased Power Expense

The extent the estimates of purchased power expense differ is shown in the following tabulation:

	<u>Edison</u>	<u>Staff</u>	<u>Edison Exceeds Staff By:</u>
1983	\$105,000	\$101,500	\$3,500
1984	114,800	111,500	3,300
1985	113,100	109,500	3,600

Southern California Edison Company
Santa Catalina Island

ESTIMATED SUMMARY OF EARNINGS - WATER
Test Year 1983

Item	Present Rates			Authorized:
	Staff	Edison	Adopted	Rates
(Dollars in Thousands)				
Revenues:				
Sales of Water	\$ 288.8	\$ 288.8	\$ 288.8	\$ 577.6
Other Operating Revenue	2.7	2.7	2.7	2.7
Schedule UF*	4.3	4.3	4.3	8.7
Total Revenues	295.8	295.8	295.8	589.0
Expenses:				
Purchased Power	101.5	105.0	101.5	101.5
Payroll (Labor)	112.4	222.7	217.6	217.6
Other O&M (Nonlabor)	78.9	78.9	78.9	80.1**
Other A&G (Nonlabor)	86.9	86.9	86.9	93.4***
Subtotal - O&M/A&G	379.7	493.5	484.9	492.6
Depreciation	157.8	158.1	157.8	157.8
Taxes - Other	63.3	64.1	64.1	64.1
Income Taxes	(288.1)	(349.1)	(344.1)	(197.9)
Subtotal - Taxes	(224.8)	(285.0)	(280.0)	(133.8)
Total Expenses	312.7	366.6	362.7	516.6
Net Income	(16.9)	(70.8)	(66.9)	72.4
Depreciated Rate Base	4,516.9	4,525.3	4,525.9	4,525.9
Rate of Return	(0.37)%	(1.56)%	(1.48)%	1.69%

(Red Figure)

* Public Utilities Commission reimbursement (users' fee as 1½% surcharge on revenues from sales.

** Includes incremental uncollectibles expense.

*** Includes incremental franchise and users' fees.

Southern California Edison Company
Santa Catalina Island

ESTIMATED SUMMARY OF EARNINGS - WATER
Test Year 1984

Item	Present Rates			Authorized:
	Staff	Edison	Adopted	Rates
(Dollars in Thousands)				
Revenues:				
Sales of Water	\$ 316.0	\$ 316.0	\$ 316.0	\$ 866.4
Other Operating Revenue	2.7	2.7	2.7	2.7
Schedule UF*	4.7	4.7	4.7	13.0
Total Revenues	323.4	323.4	323.4	882.1
Expenses:				
Purchased Power	111.5	114.8	111.5	111.5
Payroll (Labor)	123.9	232.1	226.8	226.8
Other O&M (Nonlabor)	84.3	84.3	84.3	86.5**
Other A&G (Nonlabor)	90.7	90.7	90.7	102.7***
Subtotal - O&M/A&G	410.4	521.9	513.3	527.5
Depreciation	163.1	163.1	163.1	163.1
Taxes - Other	66.8	67.4	67.4	67.4
Income Taxes	(295.7)	(354.2)	(349.6)	(71.0)
Subtotal - Taxes	(228.9)	(286.8)	(282.2)	(3.6)
Total Expenses	344.6	398.2	394.2	687.0
Net Income	(21.2)	(74.8)	(70.8)	195.1
Depreciated Rate Base	4,573.4	4,571.3	4,588.5	4,588.5
Rate of Return	(0.46)%	(1.64)%	(1.54)%	4.25%

(Red Figure)

* Public Utilities Commission reimbursement (users') fee as a 1½% surcharge on revenues from sales.

** Includes incremental uncollectibles expense.

*** Includes incremental franchise and users' fees.

Southern California Edison Company
Santa Catalina Island

ESTIMATED SUMMARY OF EARNINGS - WATER
Test Year 1985

Item	Present Rates			Authorized:
	Staff	Edison	Adopted	Rates
(Dollars in Thousands)				
Revenues:				
Sales of Water	\$ 332.2	\$ 332.2	\$ 332.2	\$1,299.6
Other Operating Revenue	2.7	2.7	2.7	2.7
Schedule UF*	5.0	5.0	5.0	19.5
Total Revenues	339.9	339.9	339.9	1,321.8
Expenses:				
Purchased Power	109.5	113.1	109.5	109.5
Payroll (Labor)	132.5	244.4	238.8	238.8
Other O&M (Nonlabor)	90.6	90.6	90.6	94.6**
Other A&G (Nonlabor)	97.4	97.4	97.4	118.4***
Subtotal - O&M/A&G	430.0	545.5	536.3	561.3
Depreciation	167.8	167.8	167.8	167.8
Taxes - Other	69.1	70.1	70.1	70.1
Income Taxes	(298.7)	(358.8)	(353.9)	135.9
Subtotal - Taxes	(229.6)	(288.7)	(283.8)	206.0
Total Expenses	368.2	424.6	420.3	935.1
Net Income	(28.3)	(84.7)	(80.4)	386.7
Depreciated Rate Base	4,542.1	4,540.1	4,567.2	4,567.2
Rate of Return	(0.62)%	(1.86)%	(1.76)%	8.47%

(Red Figure)

* Public Utilities Commission reimbursement (users') fee as a 1½% surcharge on revenues from sales.

** Includes incremental uncollectibles expense.

*** Includes incremental franchise and users' fees.

Edison's estimate of purchased power expense is determined by developing an estimate, based on 1981 data, of the required kilowatt-hours (kWh) necessary to pump one gallon of water. Staff's estimate of purchased power expense was also determined by developing an estimate of the kWh necessary to pump one gallon of water but was based on the average of 1979, 1980, and 1981 kWh/gallon. In both Edison and staff estimates, this factor was applied to the gallonage forecast by staff for pumping purposes for a given test year. Edison and staff forecasts of kWh were then priced according to the applicable Edison electric tariff schedule in order to derive their respective estimated purchased power expense.

Implicit in those results is overall greater pump efficiencies in years 1979 and 1980 than 1981 as well as perhaps pumping patterns making less use of pumps with poor efficiencies in the two earlier years. In our view, staff's estimates over three test years are more likely than Edison's estimates to reflect the benefits of a proper program, which Edison should have in place, to maintain pump efficiencies.^{2/} Consequently, we adopt as reasonable for ratemaking staff's estimates of purchased power expense.

^{2/} In Edison's work papers for Exhibit 4, the following pumps were shown to have efficiencies which fall in the low range:

<u>Pump Description</u>	<u>Horsepower</u>	<u>Efficiency</u>
Well No. 1	50.0	50.6
White's Landing	7.5	44.7
Fire Pumping	10.0	40.8
Well No. 6	50.0	52.6
Howland Well	25.0	36.4
Well A	15.0	42.5
Wrigley No. 3	5.0	22.4
Ada Booster	7.5	33.5

Except possibly for the ones in standby service, Edison should have these pumps, which are below the average-fair range in efficiency, overhauled.

Payroll Expense

Staff has developed its payroll expense estimates based on a 1980 survey of payroll expenses per customer (\$37/customer) for other water utilities. The 1980 survey results were adjusted by a staff judgment for specific circumstances unique to Catalina operations including the topography and dispersion of the system and the cost of living there. The adjustment to the 1980 survey results produced an estimated 1983 payroll expense per customer of \$81. Staff developed its 1984 and 1985 estimates of payroll expense per customer by increasing the expense by \$1/customer in the respective test years.

Edison, on the other hand, developed its estimates of payroll expense by escalating recorded labor expenses (based on average year 1981) using labor escalation rates from Data Resources, Inc.'s trend long forecast (long-term forecast of the United States economy) of the National Consumer Price Index. The estimated labor expenses in test period years 1983, 1984, and 1985 were subsequently adjusted for specific expenditures proposed in the test period (including the travel allowance and additional utility worker).

The composition of proposed payroll expenses used by Edison is given below. Staff considers its estimate of payroll expense per customer sufficient to cover all payroll expense components.

Summary of Estimated Payroll Expense

Item	Edison			Staff		
	1983	1984	1985	1983	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
Travel Allowance	\$ 6,000	\$ 6,400	\$ 6,900	-	-	-
Additional Utilityman	9,500	10,000	10,500	-	-	-
Other Payroll	207,200	215,700	227,000	-	-	-
Total Payroll	\$222,700	\$232,100	\$244,400	\$112,400	\$123,900	\$132,500

As stated earlier, Edison based its estimates of payroll expense on recorded data. We find Edison's estimates reasonable in this instance. Adjustments to the recorded data for a travel allowance and an additional utility worker were examined extensively at the hearing.

A. Travel Allowance

The travel allowance is a negotiated benefit first provided to Edison employees on Catalina in 1978. It equals one round-trip air fare per month for the employee and each member of his immediate family. For purposes of the travel allowance, "immediate family" includes children through 18 years of age, if they are living at home, and full-time college students if they are living at home. The amount of the travel allowance proposed for 1982 and 1983 is based upon the family size of the employees expected to be working on Catalina. Travel allowances for 1984 and 1985 were estimated by escalating the 1983 travel allowance expense by the appropriate nonlabor escalating rates (6.7% for 1984 and 7.2% for 1985).

As of April 9, 1982, the travel allowance was the greater of one round-trip air fare per month or \$75 per month for each employee, \$50 per month for those dependents who qualify for a full fare, and \$25 per month for those who qualify for a half fare. The total 1981 recorded travel allowance was \$8,620. The additional utility worker requested by Edison was not considered in developing the estimated travel allowance expense.

Edison pay scale is the same for both its mainland and Catalina employees. In support of the travel allowance, Edison's Catalina district manager testified in part as follows:

"First of all, I've lived on the Island four years, and there is a substantial cost associated with this travel, and that is the reason that our company determined we would use a travel allowance.

"The union came forth and requested this. We just didn't give it away. But it resolves a problem for us.

"We have a very difficult time keeping employees on Catalina because our employees can transfer off any time they want.

"We have three (employees) transferred over and we can't replace them. We've been looking for two months.

"To give us some perspective on the other kinds of allowances given, Pacific Telephone gives the same allowance, 12 round-trips for each family member. They entirely pay the full water bill. They lease a house or condominium according to the employee's requirements and rent to the employee for \$150 a month.

"That is substantially more than our allowance.

"Los Angeles County, which is what Mr. Garg referred to, the county firemen, the county sheriffs, the county lifeguards all receive an 11 percent pay supplement or free housing on the Island.

"The Long Beach School District pays each employee \$179.40 a month plus six round-trip passages by any means they choose, the boat, which is cheaper, or the helicopter which is more, or the plane.

"The University of Southern California pays a 15 to 17 percent pay supplement plus free housing at the Isthmus, if their employees are willing to live down there in a house trailer.

"So when you consider the major off-Island employers with transfer rights such as we have, ours is by far the smallest of anyone on the Island. And this is -- I personally investigated each of these cases in preparation for our union negotiations. This was not very good ammunition for me, I'll tell you, because these were all given to me personally by the managers of each of those units on the Island."

In our view, a travel allowance should be included in Edison's operating expenses for ratemaking and Edison's estimates of this allowance are reasonable.

B. Additional Utility Worker

Edison has recommended the addition of a utility worker beginning in 1983 to assist the electric, water, and gas crews on Catalina. The proposed utility worker's functions include assisting the water crew in normal operation and maintenance duties,

performing duties required under the Commission-mandated meter change-out program, and performing certain duties now undertaken with contract labor and part-time labor of a mainland serviceman, including meter reading, service turn-ons, and handling billing inquiries.

Edison has budgeted \$9,500 (representing approximately 107 man-days) in 1983 water operations for the additional employee. There is no dispute between Edison and staff with respect to the need for the additional employee or the duties that he or she would perform: maintenance of water pumping structures and equipment, water distribution structures and plant, and water treatment structures and equipment. In addition, the additional utility worker would read meters and implement the meter change-out program.

The meter change-out program is in compliance with General Order No. 103, which essentially requires that water meters remain in service no longer than 10 years (for the average 5/8-inch by 3/4-inch meter). Edison has budgeted 50 man-days in 1983 for this program: 12 days for meter removals and 38 days for installations by the additional employee.

Presently, some meter-reading duties on the island are performed by a service employee brought over from the mainland on occasions when the regular customer service employee is on vacation. This practice began in 1979, and the use of the mainland service employee has increased annually to the point that, in 1982, he provided up to 12 days of meter reads. During the past recorded years, a portion of the expense associated with the visiting service employees travel and payroll has been allocated to the Catalina water operation.

As pointed out in staff brief, it appears that Edison's test year figures include through the underlying recorded data meter-reading labor when the regular customer service employee is on vacation. This also may hold true for the remaining duties other than the meter change-out program of the additional utility worker, since contract labor for maintenance of water distribution plant and the like appears to be similarly included in the underlying recorded data.

In these circumstances we find that Edison has shown convincingly only that \$4,400 of the \$9,500 budgeted in 1983 for the additional utility worker should be additive to payroll expense in that test year. The \$4,400 corresponds to the 50-man-day meter change-out program. The remaining \$5,100 corresponding to 57 man-days may already be reflected elsewhere in Edison's estimates (i.e., in other payroll or other operation and maintenance expense) and is therefore rejected. For test years 1984 and 1985 the \$4,400 allowance is escalated to \$4,700 and \$4,900 respectively.

Taxes Other Than On Income

The minor differences between Edison and staff in their estimates in this category of operating expenses relate to payroll taxes and correspond to the proposed additional utility worker. Edison's estimates are adopted consistent with the undisputed need for the additional employee during the test years.

Working Cash Allowance

Edison and staff agree on all elements of rate base except working cash allowance.

Usually staff computes a working cash allowance based on a revenue requirement consistent with its rate of return recommendation. In this instance, however, staff computed the working cash allowance based on revenues and expenses at present rates with the result that the allowance is understated.

Edison followed a more usual practice and relies on the working cash allowance it computed for each test year based on its proposed level of revenues and expenses for that year. Included in rate base in our adopted operating results are the following allowances for working cash:

<u>Test Year</u>	<u>Working Allowance</u>
1983	\$15,800
1984	23,300
1985	34,300

The above working cash allowances have been computed using our adopted level of revenues and expenses at authorized rates in each test year and following the Standard Practice U-16 procedures employed by both staff and Edison.

Our adopted operating results reflect the following escalation rates jointly recommended by Edison and staff for adoption in this proceeding:

<u>Year</u>	<u>Escalation Rates</u>	
	<u>Labor</u>	<u>Nonlabor</u>
1982	9.0%	4.3%
1983	6.0%	4.6%
1984	4.8%	6.7%
1985	5.0%	7.2%

The compilation of adopted quantities and the adopted income tax computation are contained in Appendix C to this decision.

Authorized Revenue Increases

The authorized revenues of \$589,000 for test year 1983, \$882,100 for test year 1984, and \$1,321,800 for test year 1985:

- a. Represent revenue increases of \$293,200, or 99.1%, in 1983; \$237,900, or 36.9% in 1984; and \$395,200, or 42.7%, in 1985.
- b. Correspond to Edison's request for three consecutive increases in revenues of 100% in 1983, 50% in 1984, and 50% in 1985, without allowance for customer growth in test years 1984 and 1985, as set forth in Exhibit 15.
- c. Yield a 1.60% rate of return in 1983, a 4.25% rate of return in 1984, and an 8.47% rate of return in 1985 which are lower than the target rates of return supported by staff.

Phasing in the rate increases in the manner requested by Edison is less costly to the ratepayer than fixing rates at staff-supported target rates of return, together with the operating expenses and rate base we have found reasonable. In addition, the staff recommends limiting the first year's increase by authorizing an equal percentage increase in each test year sufficient to recover the required increases over the three-year period. This would further burden the ratepayer with the interest expense associated with the proposed revenue deferrals. Edison's requested increases are consistent with current Commission policy on rate increase deferrals, which permits up to a 100% annual increase in rates for Class B water utilities. For the year 1983, Edison continues to be a Class B water utility. In these circumstances Edison's requested increases represent a reasonable phasing in of the necessary rate increases.

Rate Design

The basic rate design for water service at Catalina was established in D.91561 dated April 15, 1980 in A.58329. While retaining seasonal rates an inverted rate structure was adopted at that time, together with a service charge rate form which replaced the precedent minimum rate form. Because of Catalina's limited fresh water supply, conservation is essential. Accordingly, the ratio of the inverted quantity rates between the first 2,000-gallon block and the excess block was targeted at a high level, i.e. approximately 2.5-to-1 for summer and 2.2-to-1 for winter. The block point of 2,000 gallons is approximately equivalent to the 300 cubic-foot block (2,244 gallons) used by other utilities to denote a lifeline allowance. An average rate differential of nearly 2-to-1 between summer and winter quantity rates and appropriate service charge levels tend to require part-time Catalina residents to pay their fair share of fixed costs.

Our adopted rate design in this proceeding retains the above features and in most respects follows Edison's rate proposals. One departure in particular from those proposals, however, applies to lifeline rates which are structured to retain their full 25% differential under total system rates. A comparison of present and adopted rates together with typical bills for general metered service is set forth in Appendix D to this decision.

Balancing Account Proposals

As part of its application, Edison requested authority to establish a Water Cost Adjustment Clause (WCAC). The proposed WCAC would operate much like balancing accounts established for electricity and gas services by Edison. The account would cover variations in the cost of the electricity component of pumping expenses primarily. Staff believes that Edison's water operations should be subject to the same balancing account procedures applied to other water companies and therefore opposes the proposed WCAC. ✓

A comparison of WCAC with the "Procedures for Maintaining Balancing Accounts for Water Utilities" (BAWU) was developed through testimony of both Edison and staff witnesses. It indicates:

1. Under WCAC there is a complete separation of WCAC expense from base rates. This permits total actual WCAC qualifying expenses to be compared to actual WCAC revenues and appropriate adjustments can be made to match these numbers over time. WCAC permits the collection of incremental franchise fees and uncollectibles attributable to incremental WCAC revenues. Under-collections or overcollections are interest-bearing.
2. Under BAWU the balancing account is established after an offsettable expense has occurred. Incremental expense per unit of consumption and incremental revenues per unit of sales are based on the latest test year adopted quantities. The unit values thus determined times their respective monthly recorded total consumption or

sales provide the positive or negative entries to the balancing accounts. Thus BAWU does not compare total recorded offsettable expense with the total recorded incremental revenues. In general, the balances in balancing accounts will be disposed of at the time offset rates are granted. BAWU does not provide coverage for either incremental franchise fees and uncollectibles expense or interest on under- or overcollections.

It is Commission policy that BAWU apply to all water utilities under our jurisdiction. We are not persuaded that an exception is warranted in Edison's case and therefore will not grant Edison's request to establish a WCAC in its tariffs.

Findings of Fact

1. At present rates Edison is incurring a loss on its water utility operations.

2.a. Substantial increases in rates for water service over the period 1983-1985 are necessary for Edison to begin to earn a reasonable return on its Catalina water utility rate base.

b. With the shift of a substantial portion of Catalina electric revenue requirements to mainland ratepayers and the forthcoming termination of the Catalina ECAC surcharge, the typical residential bill on Catalina for water, gas, and electric services can better accommodate necessary increases in rates for water service.

3. Edison requests three consecutive increases in revenues of 100% in 1983, 50% in 1984, and 50% in 1985. The requested increases as modified by Exhibit 15 yield a 1.60% rate of return on rate base in 1983, a 4.25% rate of return on rate base in 1984, and an 8.47% rate of return on rate base in 1985. These rates of return are reasonable for Edison's Catalina water utility operations in the test years.

4. Staff estimates of purchased power expense over the three test years are reasonable and more likely than Edison's estimates to reflect the benefits of a proper pump maintenance and testing program to maintain pump efficiencies.

5.a. Edison's methodology in determining payroll expense which is based on recorded data is, with modification to Edison's adjustment for the additional utility worker, more reasonable than staff's.

b. Edison's employee travel allowances are part of a total compensation package which was arrived at through collective-bargaining and Edison's estimates of these allowances are reasonable. It is reasonable to include these allowances for ratemaking purposes in this proceeding.

c. An additional utility worker is needed during the test years. However, the incremental (i.e. nonduplicative) expense to be incurred in water operations from this addition appears limited to the meter change-out program. It is reasonable to include \$4,400 in 1983, \$4,700 in 1984, and \$4,900 in 1985 for the additional utility worker.

d. Reasonable estimates of total payroll expense are \$217,600 for 1983, \$226,800 for 1984, and \$238,800 for 1985.

6. Working cash allowances of \$15,800 for test year 1983, \$23,300 for test year 1984, and \$34,300 for test year 1985 computed using the authorized level of revenues and adopted expenses in each test year and Standard Practice U-16 procedures are reasonable.

7. The adopted estimates of operating revenues, operating expenses, and rate base for the three test years reasonably indicate the results of Edison's future water operations at Catalina.

8. The adopted rate structure retains the basic rate design established in D.91561, supra, and results in a lifeline differential of 25% for residential customers.

9. It is Commission policy for "Procedures for Maintaining Balancing Accounts for Water Utilities" to apply to all water companies under our jurisdiction. An exception is not warranted in Edison's case.

10. The increases in rates and charges authorized by this decision are justified, and for the future are just and reasonable.

Conclusions of Law

1. The adopted rates are just, reasonable, and nondiscriminatory for the future.

2. The application should be granted to the extent provided by the following order.

3. Edison's request for a Water Cost Adjustment Clause should be denied.

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

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) 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.

2. On or after November 15, 1983 Edison is authorized to file an advice letter requesting the step rate increases for 1984 attached to this order as Appendix B. This filing shall comply with GO Series 96. 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.

3. On or after November 15, 1984 Edison is authorized to file an advice letter requesting the step rate increases for 1985 attached to this order as Appendix B. This filing shall comply with GO Series 96. The effective date of the revised schedules shall be no earlier than January 1, 1985, 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. Edison's request to establish a Water Cost Adjustment Clause in its tariffs is denied.

This order is effective today.

Dated OCT 19 1983, at San Francisco, California.

LEONARD M. GRIVES, JR.
President

VICTOR CALVO

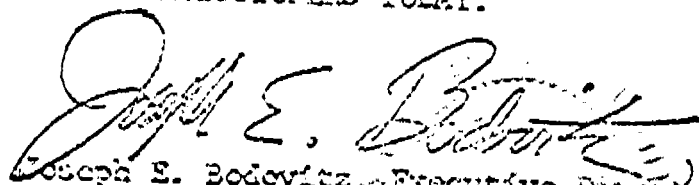
PRISCILLA C. GREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners

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


Joseph E. Bodovitz, Executive Director

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
SANTA CATALINA ISLAND

Schedule No. W-1

GENERAL METERED FRESH WATER SERVICEAPPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

	Per Meter Per Month	
	Summer Season	Winter Season
	May through September 1983	October through April 1983
Quantity Rates:		
First 2,000 gallons, per 1,000 gallons	\$ 1.82	\$ 1.52
Excess per 1,000 gallons	4.79	3.45
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.20	\$ 4.20
For 3/4-inch meter	4.20	4.20
For 1-inch meter	14.60	14.60
For 1 1/2-inch meter	19.50	19.50
For 2-inch meter	26.00	26.00
For 3-inch meter	28.00	28.00
For 4-inch meter	42.00	42.00
For 6-inch meter	47.45	47.45
For 8-inch meter	70.60	70.60

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

(END OF APPENDIX A)

APPENDIX B

Page 1

SOUTHERN CALIFORNIA EDISON COMPANY
SANTA CATALINA ISLAND

Schedule No. W-1

GENERAL METERED FRESH WATER SERVICEAPPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month	
	Summer Season	Winter Season
	May through September 1984	October through April 1984
First 2,000 gallons, per 1,000 gallons	\$ 2.44	\$ 2.04
Excess per 1,000 gallons	6.68	4.81
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 5.65	\$ 5.65
For 3/4-inch meter	5.65	5.65
For 1-inch meter	14.60	14.60
For 1 1/2-inch meter	19.50	19.50
For 2-inch meter	26.00	26.00
For 3-inch meter	28.25	28.25
For 4-inch meter	42.00	42.00
For 6-inch meter	63.85	63.85
For 8-inch meter	94.95	94.95

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.

APPENDIX B

Page 2

SOUTHERN CALIFORNIA EDISON COMPANY
SANTA CATALINA ISLAND

Schedule No. W-1

GENERAL METERED FRESH WATER SERVICE

APPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month	
	Summer Season	Winter Season
	May through	October through
	September 1985	April 1985
First 2,000 gallons, per 1,000 gallons	\$ 3.50	\$ 2.93
Excess per 1,000 gallons	9.57	6.90
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 8.10	\$ 8.10
For 3/4-inch meter	8.10	8.10
For 1-inch meter	14.60	14.60
For 1 1/2-inch meter	19.50	19.50
For 2-inch meter	26.00	26.00
For 3-inch meter	40.50	40.50
For 4-inch meter	55.10	55.10
For 6-inch meter	91.50	91.50
For 8-inch meter	136.10	136.10

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

(END OF APPENDIX B)

APPENDIX C

Page 1

ADOPTED QUANTITIES

Name of Company - Southern California Edison Company
 District - Santa Catalina Island

Net-to-Gross Multiplier - 2.0706
 Federal Tax Rates - 46%
 State Tax Rate - 9.6%
 Local Franchise Tax Rate - 0.6723%
 Business License - 0.0
 Uncollectibles Rates - 0.3963

<u>Offset Items</u>	<u>Test Year</u> 1983	<u>Test Year</u> 1984	<u>Test Year</u> 1985
1. <u>Purchased Power:</u>			
Total Production - (1000) gallons	130,094.6	142,942.5	150,707.8
Acre-Foot	399.3	438.7	462.5
Electric:			
<u>Southern Calif. Edison Co.</u>			
Total Cost	\$ 101,500	\$ 111,500	\$ 109,500
kWh	938,300	1,080,400	1,139,000
Eff. Sch. Date	1/1/83	1/1/83	1/1/85
\$/kWh Used	0.06629	0.06629	0.05981*
2. <u>Purchased Water:</u> none			

* Rate/kWh expected to drop in 1985.

APPENDIX C
Page 2

ADOPTED QUANTITIES

A-83-01-35 UD/cl

Name of Company - Southern California Edison Company
District - Santa Catalina Island

3. Pump Tax - Replenishment tax: none

4. Payroll and Employee Benefits:

Test Year 1983

Test Year 1984

Test Year 1985

Payroll (Labor)
O&M (Non-labor)
A&G (Non-labor)
Payroll Taxes

\$ 217,600
80,100
93,400
15,600

\$ 226,800
86,500
107,700
16,700

\$ 238,800
94,600
118,400
17,900

5. Ad Valorem Taxes:

Ad Valorem Taxes
Tax Rate
Assessed Value

48,500
1.01%
10,242,300

50,700
1.02%
10,421,900

52,200
1.01%
10,827,000

Metered Water Sales Used to Design Rates:

<u>Range - Gallons</u>		<u>Usage (1000) Gals. 1983</u>		<u>Usage (1000) Gals. 1984</u>		<u>Usage (1000) Gals. 1985</u>	
		<u>Summer</u>	<u>Winter</u>	<u>Summer</u>	<u>Winter</u>	<u>Summer</u>	<u>Winter</u>
Block 1	0 - 2000	10,949.3	12,871.8	12,057.8	14,132.7	12,700.5	14,936.4
Block 2	> 2000	61,562.3	43,336.9	67,795.4	47,582.2	71,408.7	50,287.9

APPENDIX C

Page 3

ADOPTED QUANTITIES

A-83-01-35 UD/CL

Name of Company - Southern California Edison Company
 District - Santa Catalina Island

	TEST YEAR 1983			TEST YEAR 1984			TEST YEAR 1985		
	No. of	Usage	Avg Usage	No. of	Usage	Avg Usage	No. of	Usage	Avg Usage
Customers & Usage	Customers	(1000)	(1000)	Customers	(1000)	(1000)	Customers	(1000)	(1000)
	Customers	Gallons	gallons/yr	Customers	Gallons	gallons/yr	Customers	Gallons	gallons/yr
Metered									
W-1 General Service	1,431	128720.3	89.95	1,550	141,568.2	91.33	1,601	149,333.5	93.28
W-1 DE	20	1257.2	62.86	20	1,257.2	62.86	20	1,257.2	62.86
W-1 Inter-departmental	<u>1</u>	<u>117.1</u>	<u>117.1</u>	<u>1</u>	<u>78.1</u>	<u>78.1</u>	<u>1</u>	<u>78.1</u>	<u>78.1</u>
Total	1,452	130094.6	89.60	1,571	142,903.4	90.96	1,622	150,668.8	92.89
Water loss									
7.0%		9106.6			10,003.2			10,546.8	
Total Water Produced		139201.2			152,906.6			161,215.6	

APPENDIX C
Page 4

ADOPTED SERVICE BY METER SIZE

Name of Company - Southern California Edison Company
District - Santa Catalina Island

	<u>Bill Month 1983</u>		<u>Bill Month 1984</u>		<u>Bill Month 1985</u>	
	<u>Summer</u>	<u>Winter</u>	<u>Summer</u>	<u>Winter</u>	<u>Summer</u>	<u>Winter</u>
5/8" x 3/4"	6276	8763	6051	9674	7336	10247
3/4"						
1"	251	349	261	363	271	377
1 1/2"	80	112	80	112	80	112
2"	155	217	158	220	163	227
3"	30	42	30	42	30	42
4"	18	24	20	28	20	28
6"	0	0	0	0	0	0
8"	<u>5</u>	<u>7</u>	<u>5</u>	<u>7</u>	<u>4</u>	<u>7</u>
	6815	9514	7505	10446	7904	11040

FLAT RATE SERVICE - NONE

APPENDIX C

Page 5

SOUTHERN CALIFORNIA EDISON COMPANY
SANTA CATALINA ISLANDIncome Tax Calculation at
Authorized Rates

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Depreciated Rate Base	\$ 4,510,000	\$ 4,565,200	\$ 4,532,900
Weighted Cost of Debt	0.0482	0.0494	0.0504
Synchronized Interest Deduction	217,387	225,520	228,458
Use	217,400	225,500	228,500
Operating Revenue	589,000	882,100	1,321,800
Operating Expenses Excluding Inc. Tax	714,500	758,000	799,200
Net Before Taxes	(125,500)	124,100	522,600
State Deduct Excluding Interest	11,900	7,700	2,600
Synchronized Interest Deduction	217,400	225,500	228,500
State Taxable Income	(354,800)	(109,100)	292,500
State Income Taxes (@ 9.6%)	(34,061)	(10,473)	27,984
Use	(34,000)	(10,500)	28,000
State Taxable Income	(348,800)	(109,100)	291,500
State Income Taxes	(34,000)	(10,500)	28,000
Other Federal Deductions	40,200	48,100	53,800
Federal Taxable Income	(361,000)	(146,700)	209,700
Federal Incomes Taxes (@ 46.0%)	(166,064)	(67,482)	96,462
Use	(166,000)	(67,500)	96,500
Federal Tax Credits	0	0	0
Deferred Tax Credits	(7,100)	(7,500)	(7,900)
Deferred ACRS	9,200	14,500	19,300
Net Federal Income Taxes	(163,900)	(60,500)	107,900
Total Taxes on Income	(197,900)	(71,000)	135,900

(Negative)

(END OF APPENDIX C)

APPENDIX D

Page 1

Schedule No. W-1

GENERAL METERED FRESH WATER SERVICE

APPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County

RATES

	<u>Present Rates</u>		<u>Adopted Rates (1983)</u>	
	<u>Per Meter Per Month</u>		<u>Per Meter Per Month</u>	
	<u>Summer Season</u> <u>May through</u> <u>September</u>	<u>Winter Season</u> <u>October through</u> <u>April</u>	<u>Summer Season</u> <u>May through</u> <u>September</u>	<u>Winter Season</u> <u>October through</u> <u>April</u>
Quantity Rates:				
First 2,000 gals., per 1,000 gals.	\$.91	\$.76	\$ 1.82	\$ 1.52
Excess per 1,000 gals.	2.25	1.63	4.79	3.45
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 2.10	\$ 2.10	\$ 4.20	\$ 4.20
For 3/4-inch meter	2.10	2.10	4.20	4.20
For 1-inch meter	14.60	14.60	14.60	14.60
For 1 1/4-inch meter	19.46	19.46	19.50	19.50
For 2-inch meter	26.00	26.00	26.00	26.00
For 3-inch meter	28.00	28.00	28.00	28.00
For 4-inch meter	42.00	42.00	42.00	42.00
For 6-inch meter	42.00	42.00	47.45	47.45
For 8-inch meter	42.00	42.00	70.60	70.60

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

A-83-01-25 WD/CL

APPENDIX D

Page 2

SOUTHERN CALIFORNIA EDISON COMPANYSANTA CATALINA ISLANDTYPICAL MONTHLY WATER BILLSCOMPARISON OF PRESENT SCHEDULE NO. W-1 & ADOPTED APPENDIX ADOMESTIC SERVICE5/8" x 3/4" METER1983WATER

			Present	Adopted		
Line:			Rates	Rates	Increase	Increase
No.	Consumption - Gallons		\$	\$	\$	%
			(1)	(2)	(3)	(4)
1.	May - September	0	2.10	4.20	2.10	100.0
2.		2,000	3.92	7.84	3.92	100.0
3.		3,000	6.17	12.63	6.46	104.7
4.		5,000	10.67	22.21	11.54	108.2
5.		10,000	21.92	46.16	24.24	110.6
6.		20,000	44.42	94.06	49.64	111.8
7.	October - April	0	2.10	4.20	2.10	100.0
8.		2,000	3.62	7.24	3.62	100.0
9.		3,000	5.25	10.69	5.44	103.6
10.		5,000	8.51	17.59	9.08	106.7
11.		10,000	16.66	34.84	18.18	109.1
12.		20,000	32.96	69.34	36.38	110.4

(END OF APPENDIX D)

Balancing Account Proposals

As part of its application, Edison requested authority to establish a Water Cost Adjustment Clause (WCAC). The proposed WCAC would operate much like balancing accounts established for electricity and gas services by Edison. The account would cover variations in the cost of ^{the} electricity component of pumping expenses primarily. Staff believes that Edison's water operations should be subject to the same balancing account procedures applied to other water companies and therefore opposes the proposed WCAC. 12

A comparison of WCAC with the "Procedures for Maintaining Balancing Accounts for Water Utilities" (BAWU) was developed through testimony of both Edison and staff witnesses. It indicates:

1. Under WCAC there is a complete separation of WCAC expense from base rates. This permits total actual WCAC qualifying expenses to be compared to actual WCAC/revenues and appropriate adjustments can be made to match these numbers over time. WCAC permits the collection of incremental franchise fees and uncollectibles attributable to incremental WCAC revenues. Under-collections or overcollections are interest-bearing.
2. Under BAWU the balancing account is established after an offsettable expense has occurred. Incremental expense per unit of consumption and incremental revenues per unit of sales are based on the latest test year adopted quantities. The unit values thus determined times their respective monthly recorded total consumption or

APPENDIX A

SOUTHERN CALIFORNIA EDISON COMPANY
SANTA CATALINA ISLAND

Schedule No. W-1

GENERAL METERED FRESH WATER SERVICEAPPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

	Per Meter Per Month	
	Summer Season	Winter Season
	May through September 1983	October through April 1983
Quantity Rates:		
First 2,000 gallons, per 1,000 gallons	\$ 1.82	\$ 1.52
Excess per 1,000 gallons	4.79	3.45
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.20	\$ 4.20
For 3/4-inch meter	4.20	4.20
For 1-inch meter	14.60	16.60 14.60
For 1 1/4-inch meter	19.50	19.50
For 2-inch meter	26.00	26.00
For 3-inch meter	28.00	28.00
For 4-inch meter	42.00	42.00
For 6-inch meter	47.45	47.45
For 8-inch meter	70.60	70.60

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

(END OF APPENDIX A)