AP

ORIGINAL

Decision No. 87708 AUG 16 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| In the Matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing an increase in water rates in its Big Bear District. | Application No. 56339 (Filed March 17, 1976) |

Harold M. Messmer, Jr., Attorney at Law, for applicant.
Chester E. Anderson and Raymond C. Feeser, for State of California Department of Health; and Donald L. Johnson, for Big Bear Lake Fire Protection District; interested parties.
Radovan Z. Pinto, Attorney at Law, and Ernst G. Knolle, for the Commission staff.

## O P I N I O N

By this application Southern California Water Company (Company) seeks authority to establish water rates in its Big Bear District which are designed to increase annual revenues by $216,200 or 30.6 percent over the revenues produced by the authorized rate levels in effect on July 1, 1976 based on test year 1976 operations. In addition, Company requests step increases in revenue of approximately $23,000, or 2.49 percent in each of the test years 1977, 1978, and 1979.

After duly published and posted legal notice, public hearing was held before Examiner Gillanders at Big Bear City on April 5 and 6, 1977.

Company presented testimony and evidence through two witnesses and fourteen exhibits. The staff presented testimony from three witnesses and introduced three exhibits. Fifty-nine customers attended the hearings of whom ten testified in opposition to the rate increase. All exhibits were received as of April 12, 1977 and the matter is ready for decision.

General Information

Company is a California corporation with its principal place of business located in Los Angeles. It is a privately owned public utility which provides water service in 15 districts in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura. It also provides electric service in the vicinity of Big Bear Lake.

Big Bear District

Big Bear District is in the vicinity of Big Bear Lake, an unincorporated area in the San Bernardino Mountains in San Bernardino County. The area is predominately recreational in nature with many "second homes" occupied during the recreational seasons. It contains four service areas with separate non-interconnected systems serving areas known as Big Bear Lake, Fawnskin, Rimforest, and Sugarloaf. A brief history of these systems follows.

As of December 31, 1975 Company served a total of 7,640 customers in the four areas comprising the Big Bear District. The distribution systems providing water to these customers are composed of approximately 785,000 feet of main of varying sizes. The water supply is from Company's wells and springs with a small amount of water purchased from the Crestline-Lake Arrowhead Water Agency. In addition, each of the service areas has storage facilities and booster pumps.

As of December 31, 1975, the net book cost of utility plant amounted to $4,795,521 with depreciation and amortization reserves of $917,048 or a net depreciated plant of the Big Bear District of $3,878,473.

Rate Proposals

The rates originally in the application were designed to yield an approximate 15 percent rate of return on allocated common equity, the return Company claimed was necessary to maintain its credit to allow it to finance additions to utility plant. Company claims that because of the major effect that interest deductions for tax purposes have on the rate of return an increasing rate of return is required to produce a given return on common equity.

Step rates for the Big Bear Lake area were proposed to offset the costs principally related to new capital invested in the Big Bear Lake system. Company's studies indicated that step rates were not required for the Sugarloaf metered or Fawnskin flat rates. It was proposed to apply the rate designed for the 1,600 customers in Sugarloaf to the less than 200 customers in Rimforest. It was proposed to apply the rate designed for the 5,200 customers in the Big Bear Lake area to the 15 metered business customers in the Fawnskin area. The present flat rate schedule in the Moonridge portion of the Big Bear Lake system will be withdrawn.

Company requests that as no provision for increased major expenses are included in the proposed rates such increases in effect at the time of the Commission's decision in this proceeding be reflected in the general rate levels.

The proposed general metered rates reflect a change to the service charge form of rate, an initial block of 500 cubic feet based on the direct commodity cost of water and a second block higher than the first block: an inverted rate structure. Based on test year 1976, Company's proposal would result in a 30.6 percent increase in revenues above the rates presently authorized by the Commission to become effective July 1, 1976.

At the hearing, Company presented an entirely different proposal. It is now proposing that the rate structure for the entire Big Bear District be consolidated, that in effect there be only one rate structure, and that rate structure would have two facets. The first, for the permanent residents, would be a certain rate. The second is a higher rate for the nonpermanent residents.

Company's senior vice president testified that the reasons Company changed its rate proposals are:

> "The structure of our original rates, original proposal, was the same type of structure, a full cost of service rate structure that we had proposed in Orange County, Central Basin, Pomona Valley, and Southwest.
>
> "The Commission didn't adopt the company's proposals, particularly with respect to the usage, that which is called lifeline.
>
> "Having that recent decision in front of us, we were practical enough to believe that the Commission would not adopt the same type of proposals in the Big Bear District that they refused to adopt in the other districts.
>
> "There has been, I guess, perhaps further study by me on the tariff consolidations that are considered in the lifeline, the entire lifeline matter, and in a very major decision of the Commission on electric lifeline, which was Decision 86087, at page 45, the Commission said that
>
> > 'Over the years, gas and electric utilities had developed rate zones based on customer density. These rate zones gave some recognition to progressively higher costs to serve as customer density decreased. Now that conservation and other social considerations are being added to the more traditional rate factors of cost to value of service, it appears that a plethora of rate zones is no longer appropriate. We will therefore in individual rate cases sympathetically entertain proposals to reduce the number of or entirely eliminate rate zones.'

"That was the major decision on lifeline in electric.

"As far as water goes, we have recently, the Commission has recently, issued a Decision No. 86970 in our Central Basin case that was issued in early February.

"At that time, the Commission consolidated four separate tariffs into one tariff and established a lifeline rate.

"I consider that to be following pretty much along the policy outlined in the major lifeline electric decision.

"So, we have had a couple of things, the policies of the Commission as set forth in their decisions indicating that a number of different rates by areas should be reduced, I also took a look at the relative numbers of customers in the various areas here in Big Bear.

"For instance, in Rimforest we only have about 200 customers.

"It doesn't seem practical if you are starting in a lifeline rate to have an entirely separate cost of service for Rimforest.

"Sugarloaf is a smaller area of the Big Bear system.

"To me it seems for those same reasons that a consolidation is needed.

"Also, I consider the staff report, which was mailed, which we received last Thursday, but which I looked at, the post office spent four days getting it to us, and the staff report recommended a lifeline usage or lifeline rate, lower rate, for the permanent customers.

"I felt that the staff proposal was very similar in that most of the water customers here in the Big Bear Lake area, I guess all of them, except in Rimforest, are also customers of our electric system, and in Decision 85278, dated December 30, 1975, the Commission authorized the company a general rate increase in its electric system up here in Bear Valley, and in that proceeding, in that decision, the Commission recognized how unique this area is in that most of our customers don't live here.

"76 percent of our electric customers live other than in the valley.

"They live mainly in Los Angeles or Orange County, and that figure is, for water, is 74 percent; it's just about the same.

"In that decision, the Commission defined a permanent resident.

"Company's rate proposal for the permanent customer would be a service charge of $5.00. The customer would pay that every month for which he would get no water. For the first 500 cubic feet of water, he pays 26 cents per hundred or $1.30 so that the now proposed rate would be $6.56 per month for a permanent resident versus $8.34 for a nonpermanent resident."

The staff differs markedly from Company in its rate proposals. Traditionally, the staff has been a leader in recommending that water utilities change from minimum charge rates to the service charge type of rate schedule. However, in this proceeding, such change was not recommended because the staff understands Commission policy to be "...that since lifeline has been applied to water, that where minimum schedules are in effect, that it's preferable to maintain them and use 500 cubic feet as a minimum, so that all lifeline customers would receive the same bill for the lifeline service." The staff, therefore, recommended a quantity rate.

Service

According to Company, the Big Bear system has five separate service areas which are not interconnected. The water supply for these areas is basically from vertical and horizontal wells. There are some springs and a connection to a supplemental supplier in Rimforest that provides a very small amount of water.

The Big Bear system is a system that has been developed over a number of years.

Company has purchased a number of these areas, such as Rimforest, Sugarloaf, and Fawnskin, from other agencies in recent years. The system has a high percentage of small steel pipe. There are a number of leaks in the system, but leaks are not the main problem with the system.

The real problem with the system is that it is a system that during the weekdays has 9,000 or 10,000 permanent residents, and on the weekends, principally the 3- and 4-day weekends, the population can increase to 75,000 and 100,000 people. Therefore, Company must be prepared to serve that number of people.

The current drought has greatly affected Company's water supply. In past years the wells could rest during the week and then over the weekends could be pumped and thus supply the large increase in population. Under drought conditions, this is no longer feasible.

In the last few years substantial investments in the distribution system and additional facilities have been made. The mains have been replaced with larger size mains that are going to last longer, won't leak, carry more water, and provide for fire protection. Company has also invested a substantial amount of money in water supply facilities.

In 1976, Company made a direct mailing to its customers telling them what its problem was and asked them on the weekends particularly to conserve water, not use water for landscaping purposes, washing cars, and to keep in mind that the water was needed for fire protection and for service to the weekend residents.

For a number of years Company has tried to solve a winter freeze problem by using a bill stuffer that it sends out in the first part of the winter. Company also places ads in the local paper. This is to educate the customer who may otherwise fail to winterize his house and leave, thereby causing a great deal of water loss in a freeze. Some time during the first freeze, Company

may have 8 or 10 or 12 houses with water running wide open because the plumbing is broken and Company must patrol the system to try to find the leaks.

Company drilled two new wells in 1976. Company was not able to drill the wells and have them on the line as early as it had hoped. Big Bear City Community Services District which had some spare water shared it with Company when asked. Company also has entered into an agreement to discuss the whole valley's water supply. In 1975, Company's operating department and engineering department put together what they thought they were going to need in 1976 in the way of facilities. This included the $100,000 of distribution improvements. The total we estimated at that time was $245,000 for 1976; Company spent $392,000.

In 1972, when the Commission granted Company the last increase, it ordered Company to spend $100,000 for main replacements annually. Each year since then it has spent more than that. In 1973, in distribution improvements, it spent $157,000; in 1974, it was $131,000; in 1975, it was $108,000; in 1976, it was $116,000 just replacing mains. Company believes that it is not going to have any problems during 1977, but it is planning ahead. It plans to spend in 1977 in the neighborhood of $313,000, of which $105,000 it expects will be spent in distribution improvements and $207,000 in water supply facilities. Each one of the jobs that it has done so far in 1977 has run more than it was budgeted. In 1978 and 1979, Company has budgeted a total of $880,000 worth of work for distribution improvements and water supply improvements.

Today, Company is trying to prepare for the summer by sending out water conservation kits to permanent residents in Bear Valley who are its customers.

According to Company it has a serious service problem in the Sugarloaf system as the mains that were laid by the original developer, at a proper depth, were laid in unpaved streets, and over 30, 40, 50 years these streets have eroded and presently there is not adequate coverage on the original mains. Therefore, when there is a freeze pipes break unless the company runs bleeders. Presently, Company does not have the capability of keeping water in the mains at shallow depth in the winter months without bleeding water.

In addition to the main bleeders, Company bleeds water from the couplings at the house meters. Company does not like to do that, but in many cases it does it to keep the people who come up on a Friday night or Saturday morning in water. As the customer's line is going to bleed back through Company's, there is going to be feedback and freezing of Company's line, and the customers would not be able to have water when they go into their house and open their tap. There is no other way to keep the customer in service until the mains and the services are replaced.

Company also has the problem of persons unknown turning on the above ground bleeders and wasting large amounts of water at times the bleeders are not needed for freeze protection.

Staff's Exhibit 14 shows the following:

"Service

"Complaints on file in applicant's office by types are as follows:

| 12 Months Ending April, 1976 Complaints to Company | |
|---|---|
| Billing | 198 |
| Pressure | 16 |
| Dirty Water | 13 |
| Taste and Odor | 15 |
| Other Service Complaints | 140 |
| Total | 382 |

"Of the 382 complaints, 184 were service-related.

"During 1975 and 1976, the Commission staff received many informal complaints relating to service. Customer concern was directed toward Big Bear Lake outages and low pressure on the 4th of July weekend, 1975, and Memorial Day weekend, 1976, poor fire protection and numerous leaks. The Big Bear Lake Fire Protection District has shown continual interest in adequate fire protection and storage. Also, the State Health Department and the San Bernardino County Health Department and Environmental Improvement Agency have been in contact with applicant and the Commission staff concerning the possible presence of health hazards during outages and adequate fire protection.

"Although the current drought conditions in California have diminished the capacity of applicant's production wells, it appears that the additional wells installed in 1976, together with an effective water conservation program, will enable applicant to meet peak demand periods this year. However, there are still too many leaks in the Big Bear District. A breakdown of these follows:

| | Leaks 1975 | Customers Per Leak/Year | Leaks 1976 Thru Oct. | Customers Per Leak/Year |
|---|---|---|---|---|
| Big Bear Lake Area | 987 | 5.3 | 930 | 4.9 |
| Sugarloaf Area | 364 | 4.4 | 296 | 4.6 |
| Fawnskin Area | 11 | 44.4 | 13 | 31.8 |
| Rimforest Area | 42 | 4.6 | 42 | 3.9 |
| Total | 1,404 | 5.4 | 1,281 | 5.0 |

"These leaks coupled with applicant's massive bleeder program to prevent freeze-ups has resulted in unaccounted for water which exceeds sales in Rimforest and Sugarloaf. Because of this and the high cost of water, the staff is of the opinion that a scheduled main replacement program to reduce leaks and increase main depths should be instituted for these two areas.

"While applicant since 1973 has consistently invested at least $100,000 per year in main replacements, the corresponding footage has declined due to inflation. The following itemizes the main replacements 1973-1976 and estimated 1977:

| | Main retired | Main installed | Cost | Cost/Ft. |
|---|---|---|---|---|
| 1973 | 9,511 ft. | 10,331 ft. | $157,175 | $15.21 |
| 1974 | 7,193 ft. | 8,338 ft. | 133,792 | 16.05 |
| 1975 | 5,982 ft. | 5,911 ft. | 107,909 | 18.26 |
| 1976 | 5,850 ft. | 6,080 ft. | 115,942 | 19.07 |
| 1977 Estimated | 4,980 ft. | 5,120 ft. | 105,600 | 20.63 |

"In light of the over 35 percent increase in main replacement cost since 1973 and the numerous leaks, bleeders and high cost of water in Rimforest and Sugarloaf, the staff believes that a new main replacement program should be instituted for the Big Bear District of at least $200,000 annually."

The staff made the following recommendations regarding service:

"1. Ordering paragraph 1 of Decision 81038 in Application 53045 required applicant to institute a water main replacement program for the Big Bear District, wherein $100,000 would be expended each year from 1973 through 1978. The staff recommends that the main replacement program be increased to at least $200,000 each year and extended to 1977 through 1981.

"2 Applicant has concentrated its main replacement program in the Big Bear Lake area. The staff recommends that this program be expanded to include the Rimforest and Sugarloaf areas. The anticipated expenditures for these areas are to be included in the $200,000 of recommendation 1. However, applicant should itemize the anticipated expenditures by area each year and submit them for approval by the Executive Director of the Commission."

According to the district engineer for the State Department of Health, the department has considerable knowledge of the operation of the system in the Big Bear District. Routine inspections are made and reports are routinely filed by the company with the department on water quality and problems experienced.

Some water systems in the district have experienced serious problems related to water quality and water outages. Therefore, the Department is extremely concerned in seeing that the significant improvements are planned and implemented. The present water main leak rate in some of the district's systems is extremely high, and this rate poses a significant potential for contaminants to enter the water system. The department fully supports the staff's recommendation that the authorized main replacement program for the district be increased significantly. The department agrees with the staff that the main replacement program should be mostly concentrated in the Sugarloaf and Rimforest areas, particularly in Sugarloaf, to eliminate all of the shallow mains which require continuous bleeding to prevent freezing. This bleeding operation is extremely wasteful of water, and it poses a potential threat for contamination to enter the system when bleeding is done.

The proposed tank in Sugarloaf is needed to provide adequate storage and to enable control of current water quality problems related to the existing Barton Lane tank in Sugarloaf; also the proposed tanks in Moonridge and Bear Valley are urgently needed to reduce the possibility of future water outages, particularly on peak demand weekends.

The Bear Valley reservoir in Big Bear Lake and the Barton Lane tank in Sugarloaf are scheduled for construction in 1978 and 1979, respectively. It is the department's opinion that these tanks are urgently needed now and, if at all possible, construction of these tanks should be accelerated earlier than the proposed construction dates of 1978 and 1979.

The department does not agree with the staff's conclusion in Section 22 of its report that the capacity of Company's production wells will enable Company to meet peak demand periods this year. The department is concerned that no new wells have been proposed for the next three years. They are needed and they may be needed this year and certainly in the next few years. Storage capacity in the Bear Valley, Moonridge, Sugarloaf, and Fawnskin system is marginal at best for most of the year. Continuous pumping of all wells in some of these systems is needed to meet the normal demands. Part of Company's increased demand during the winter months of the year is caused by the need to bleed to prevent freezing such as in the Sugarloaf system. Some of these wells periodically develop water quality problems which require the wells to be taken out of service and chemically treated. In the past, treatment of wells to eliminate water quality problems has been necessarily delayed because taking a single well out of production for only a few days could cause a water outage.

A significant increase in service connections over the next few years can be expected since much of the district is in the process of being, or has recently been, sewered. It is the department's opinion that if no wells are drilled, future water outages may occur.

According to the Fire Chief of the Big Bear Lake Fire Protection District he shares the concern of others that the system will not be able to sustain itself for the full summer due to the drought conditions and the fact that the underground reservoirs will not be able to recharge themselves. One of the reasons for his concern is that the pumps are not going to be able to shut down and sit there dormant. The pumps are going to be running, after school vacation starts, almost constantly, 24 hours a day. There are going to be breakdowns, and the system is not going to be able to keep up with the constant consumer demand that is going to be required. He is also concerned that many people are being penalized with abnormal insurance rates strictly due to lack of fire protection water. He is also concerned with the problem of storage. Although Company has done a real good job in the Moonridge area, they have completely ignored the Big Bear Lake area as far as storage goes.

According to the chief, Company puts in these improvements, but it does not consult with the fire protection agency which has the responsibility of serving the public, and which has comments from the public as to what is needed. As an example, Company, just recently, without consulting the community, the Chamber of Commerce, or the fire district, signed up the Snow Summit Ski Resort to give them approximately 250,000 gallons of water a day when Company in the Moonridge area signed a contract with those people to give them water to fill their reservoir for snow-making capabilities.

He agrees with the staff's recommendation regarding increased main replacement, but he disagrees on the staff's recommendation as to how it should be allocated. The chief thinks it should be allocated on a service basis: Take the number of services in Big Bear Lake and take that percentage of the total system and apply the main replacement on that type of ratio, and not give any more to Sugarloaf than proportionately the formula works out. He has continually watched the water company patch and patch and patch and patch the same leak time after time after time after time. The chief testified that the fire hydrants are very poorly maintained as Company does not have adequate personnel assigned to the Big Bear stations to keep up with the maintenance of the hydrants.

According to the chief of the Crestline Fire Protection District, the 300 plus residents of Rimforest and the several million dollars of assessed property valuation have a mere 380 gallons per minute water fire flow available from one fire hydrant. Company treats Rimforest as a poor stepchild. Company has placed continuous repair clamps up and down the street instead of properly replacing leaky pipes that result in loss of water in amounts greater than those delivered to customers. He is concerned about the lack of storage on a system constantly leaking and at times being bled. He has never had a communication from the company regarding proposed improvements, with one exception, in five and one-half years. He introduced Exhibit 17 showing a bad leak that had been flowing for approximately two days without attention from the company.

Eight customers testified. Six were from the Sugarloaf area, one from the Big Bear area, and one represented the Bear Valley Unified School District.

The Sugarloaf witnesses are very concerned with the potential health problems and the wasting of water caused by Company's bleeding program in the area. They are very concerned with the lack of water for fire protection and the fact that Company does not fix its leaking pipes. They question why the rates for the Sugarloaf area are higher than those in other areas operated by Company in the Big Bear District.

The public witness from the Big Bear area testified that it takes Company as many as three or four days and in some cases longer to fix leaks. A week later, the pipe leaks ten feet further on. He believes that before he should be asked to conserve water, Company should be required to stop wasting water because of leaking pipes.

The Bear Valley Unified School District understands the problem of conservation of resources and is implementing methods which it feels will benefit Big Bear Valley and California. Its main concern is the effect of legislation which fixes the revenue limit and the capacity to raise revenue on many governmental agencies including school districts. It requested that this Commission consider the lack of additional funds to meet increases in costs. The district's witness testified that the district has received a very high degree of cooperation from Company in terms of its requirements for water.

Results of Operation

Witnesses for Company and the Commission staff have analyzed and estimated Company's operational results. Summarized on the page following, from Company's Exhibit 4 and staff's Exhibit 14, are the estimated results of operations for the test years 1976 and 1977 under present rates and under those proposed for 1977 by Company.

Southern California Water Company
Big Bear District

SUMMARY OF EARNINGS

Years 1976 and 1977 Estimated

| Item | Applicant Estimated: Present Rates | Applicant Estimated: Proposed Rates | Staff Estimated: Present Rates | Staff Estimated: Proposed Rates | Applicant Exceeds Staff# |
|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | |
| **Year 1976** | | | | | |
| Operating Revenues | $ 707.2 | $ N/G[2] | $ 713.8 | $ 950.4[1] | $ (6.6) |
| Operating Expenses | | | | | |
| Oper. & Maintenance | 358.6 | N/G | 366.6 | 367.1 | (8.0) |
| Admin. & General | 47.4 | 47.4 | 58.3 | 58.3 | (10.9) |
| Taxes Other Than Income | 78.3 | N/G | 95.5 | 97.9 | (17.2) |
| Depreciation | 93.2 | 93.2 | 92.7 | 92.7 | .5 |
| Prorated General Office | 30.4 | 30.4 | 37.9 | 37.9 | (7.5) |
| Subtotal | 607.9 | - | 651.0 | 653.9 | (43.1) |
| Taxes on Income | (40.8) | N/G | (96.8) | 26.3 | 56.0 |
| Total Operating Exps. | 567.1 | - | 554.2 | 680.2 | 12.9 |
| Net Operating Revenue | 140.1 | - | 159.6 | 270.2 | (19.5) |
| Depreciated Rate Base | 2,923.5 | 2,923.5 | 3,101.2 | 3,101.2 | (177.7) |
| Rate of Return | 4.79% | - | 5.15% | 8.71% | (0.36)% |
| Average No. of Customers Excluding Fire Protection | 7,690 | 7,690 | 7,759 | 7,759 | (69) |
| **Year 1977** | | | | | |
| Operating Revenues | $ 716.6 | $ 954.6 | $ 735.0 | $ 977.6[1] | $ (18.4) |
| Operating Expenses | | | | | |
| Oper. & Maintenance | 357.5 | 357.5 | 370.9 | 371.2 | (13.4) |
| Admin. & General | 48.1 | 48.1 | 59.4 | 59.4 | (11.3) |
| Taxes Other Than Income | 83.9 | 86.2 | 108.2 | 110.7 | (24.3) |
| Depreciation | 99.2 | 99.2 | 108.9 | 108.9 | (9.7) |
| Prorated General Office | 30.6 | 30.6 | 38.2 | 38.2 | (7.6) |
| Subtotal | 619.3 | 621.6 | 685.6 | 688.4 | (66.3) |
| Taxes on Income | (53.4) | 70.9 | (124.3) | 2.1 | 70.9 |
| Total Operating Exps. | 565.9 | 692.5 | 561.3 | 690.5 | 4.6 |
| Net Operating Revenue | 150.7 | 262.1 | 173.7 | 287.1 | (23.0) |
| Depreciated Rate Base | 3,118.2 | 3,118.2 | 3,556.5 | 3,556.5 | (438.3) |
| Rate of Return | 4.83% | 8.41% | 4.88% | 8.07% | (0.05)% |
| Average No. of Customers Excluding Fire Protection | 7,790 | 7,790 | 7,999 | 7,999 | (209) |

(Red Figure)

\# At present rates.
1/ At proposed rates for 1977 applying to both 1976 and 1977 test years.
2/ Not given at 1977 proposed rates.

Company and the staff were in agreement as to water sales of 69.2 Ccf per residential metered customer per year under normal rainfall and temperature conditions. The major difference in revenues at present and proposed rates is due to the staff's higher estimate for customers. For operating expenses the staff made use of later information including the then latest known rates for power for pumping and payroll tax. For income taxes the staff used a full flow through of the investment tax credit and the current 10 percent rate rather than the 4 percent rate existing at the time of the filing of this application.

Staff's estimate of district rate base exceeds applicant's by $177,700 for test year 1976, and by $438,400 for test year 1977. The major items causing these differences are explained as follows:

a. For 1976 the actual gross plant additions exceed the applicant's estimate by $314,700. Over $220,000 was for two new wells and $50,000 for land, both of which were not included in the applicant's original budget.

b. Staff's gross plant additions in 1977 exceed applicant's by $247,800. $100,000 is due to applicant increasing the size of proposed Lassen Reservoir. A second $100,000 is for additional main replacement over that ordered in Decision No. 81038. This additional amount is recommended by the staff to offset the effects of four years of inflation and additional construction program. This will accelerate the replacement program to reduce the rate of leakage. Applicant also increased its estimate of advances by approximately $50,000.

c. The difference in retirement and adjustments is due to higher actual additions and estimates of replacements.

d. Staff's working cash is higher than applicant's because staff used 1976 and 1977 expenses for the bases of the average day expenses while the applicant used 1974 expenses as a basis.

e. Weighted Average Advances for Construction difference reflects the additional advances estimated by applicant.

Company Stipulation on Results of Operation

At the hearing, Company stipulated to the staff's revenues, expenses, and rate base included in its summary of earnings for test years 1976 and 1977.

We will adopt the staff's summary of earnings as a basis for establishing rates in this proceeding.

Rate of Return

It was the testimony of Company's expert in investment banking and utility finance in hearings on other districts of Company, that a 9.73 percent rate of return on rate base or approximately 15 percent rate of return on common stock equity was needed to enable Company to sell its shares at a price which would not be punitively dilutive to the present stockholders and destructive to the market for Company's common stock.

The staff's financial witness in that case recommended a rate of return of 9.15 percent on rate base, or approximately 13.33 percent return on common stock equity. After considering the arguments advanced by Company and staff we found as reasonable a rate of return of 8.85 percent on rate base, or approximately 12.5 percent return on common stock equity. We denied Company's petition for rehearing on the matter of rate of return. Subsequently, we allowed an 8.85 percent rate of return on two other Company applications.

Company now is willing to settle for a rate of return of 8.41 percent at proposed rates based on its results of operation study for the test year 1977.

According to the staff financial witness, he was prepared to recommend a rate of return of 8.95 percent but as it is the staff's position that "Company is precluded by Section 454 of the Public Utilities Code from receiving anymore revenue than they have requested in this proceeding", he did not so recommend.

Company, in its application, requested an increase of $216,200 based on test year 1976 operations.

Company in its Exhibit 4, Table 11-A-2, shows an increase of $238,000 in gross revenues based on test year 1977 operations. If we apply a rate of return of 8.41 percent to the staff's 1977 estimated test year rate base, we derive a net revenue of $299,100 or an increase of $125,400 in net revenue over the staff estimate of 1977 test year operations at present rates. As the net-to-gross multiplier is 2.138, the staff is in effect recommending an increase in gross revenues of $268,100 or $51,900 more than Company requested in its application and $30,100 more than Company's estimated 1977 gross revenue. This does not conform to the staff's Section 454 theory.

Company clearly states in its application that its rate proposals were designed to keep the rate of return on allocated common equity relatively constant over the test years 1975, 1976, 1977, 1978, and 1979. The allocated return varies from a low of 14.26 percent to a high of 14.73 percent.

In the three most recent decisions in Company's applications we authorized a rate of return on common equity of 12.5 percent.

In this proceeding staff's 8.95 percent rate of return would produce a rate of return on common stock equity of approximately 13 percent. At a rate of return of 8.41 percent the staff's calculation of return on common equity is 11.50 percent.

Discussion

There is no reason why we should not adopt the staff's estimates of expenses and rate base as shown on Exhibit 14. We cannot, however, agree with the staff's method of determining its recommended rate of return, nor can we agree with the staff's rate design. We will order Company to abide by the staff's recommended main replacement program. We will not authorize step rates.

In Citizens Utilities Co. of California, 52 CPUC 541, we stated:

> "Applicant should be aware that this Commission has on numerous occasions set forth its opinion that for the purpose of rate fixing it is this Commission's practice to determine the need for additional earnings upon the consideration of numerous factors. Among such factors are the characteristics of the territory served, adequacy of the service, growth factor, comparative rate levels, rate history, value of the service, diversification of revenues, public relations, management, financial policies, performance of reasonable construction requirements, prevailing interest rates, trend of rate of return, past financing success and future outlook for the utility, overall cost of money and other related economic conditions. No single one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return. All pertinent factors are considered."

This record is replete with testimony contained within the parameters set forth above. There is no question that service is poor, public relations leave much to be desired, and management is erratic. In recent decisions for other districts of Company with good service we found that a rate of return of 8.85 percent on rate base or approximately 12.5 percent return on common stock equity was reasonable. In this proceeding, considering all pertinent factors, a rate of return of 8.0 percent on rate base or approximately 10.34 percent return on common stock equity is reasonable. Such rate of return requires an increase in gross revenues of $236,900 based on the staff's test year 1977 operations.

On July 13, 1976, we issued Decision No. 86087 in Case No. 9988 (Lifeline).

In regard to the definition of "residence" page 9 of that decision reads as follows:

> "...will sell energy, in part, to residential customers. The most appropriate of Webster's definitions of 'residential' is 'used, serving, or designed as a residence or for occupation by residents'. In turn, Webster defines 'residence' as 'a temporary or permanent dwelling place, abode, or habitation to which one intends to return, as distinguished from a place of temporary sojourn or transient visit.' We take this to mean single family houses, townhouses, and the dwelling units of apartments, condominiums, and mobile homes. Living units in governmental sponsored or operated housing projects and military family housing meet the definition, but the common areas would not.
>
> "Transient trailer parks, campgrounds, and ordinary hotels and motels also do not meet the definition. Neither do hospitals and convalescent homes, college dormitories, fraternities and sororities, student rooming houses, or military barracks because of the transient nature of their inhabitants.
>
> "To Webster 'user' is simply 'one who uses'. Of its many definitions of 'use', 'to put into action or service' seems the most fitting."

The examiner's original draft dated February 11, 1976, on page 9, concluded that second homes did not meet the definition of residence and thus would not qualify for lifeline rates. We did not agree. Thus, we cannot agree with the proposed rate design of Company and staff in which they deny second home customers the benefit of lifeline rates. We recognize that we did allow Company to file a tariff schedule for its electric customers in its Big Bear electric system which has different rates for permanent and nonpermanent customers. However, such filing was made as ordered by Decision No. 85278 dated December 30, 1975. Until changed, our policy regarding permanent and nonpermanent customers is now that set forth in Decision No. 86087.[1/]

We agree with Company that there should be a reduction in the number of separate rate areas.

In Decision No. 86959 dated February 10, 1977 in Case No. 10114 we said:

> "Leaks, Unaccounted for Water, and Pressure Reduction
>
> "An obvious source of water saving is the location and detection of leaks. Usually this is an economic trade-off. If the cost of water saved through detection of leaks in a water utility's system exceeds the cost of finding and repairing the leaks, the economic incentive is usually sufficient to induce the utility to conduct a continuing leak-detection program. In metered systems there is obviously no incentive for the utility to discover leaks on the customers' premises, although, as a matter of good citizenship, most utilities encourage customers to be alert in correcting leaks. Under the present situation, however, the physical reality of a limited supply takes precedence over the economics of correcting leaks. The Commission will expect all respondents to conduct diligent leak detection and mitigation programs, both on the utilities' systems and, where practical on customers' premises. Since very little time is needed to identify and correct the more obvious leaks, this program should be initiated immediately.

1/ Decision No. 86087 is called "First Interim." Case No. 9988 is presently in the final decision making process.

> "Besides leaks, water is often taken from hydrants by construction contractors and governmental agencies. Water is also used for training of fire crews. Utilities will be expected to examine such usages and, where possible, work with these users to reduce or, if possible, suspend such uses. If appropriate, these measures can be incorporated in rationing plans."

Findings

1. Company is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The staff's estimates, previously discussed herein, of operating expense and rate base for the test year 1977 reasonably indicate the results of Company's operations for the future and are adopted.

3. A rate of return of 8.0 percent on the adopted rate base for the year 1977 will produce a return on common equity of approximately 10.34 percent. Such rate of return is applicable to this, and only this proceeding, and requires an increase in gross revenues of $236,900, which amount is reasonable.

4. The establishment of a lifeline form of rate is reasonable.

5. Lifeline should be available to all metered customers.

6. A service charge type of rate is reasonable.

7. There should be but one service charge schedule in the Big Bear District.

8. The Moonridge flat rate schedule should remain in effect only on a limited basis.

9. Locking of bleeder valves should prevent unauthorized turn ons.

10. Company's main replacement should be increased to at least $200,000 per year from 1978 through 1982.

11. The main replacement program should include the Rimforest and Sugarloaf areas.

12. Step rates should not be authorized except upon a showing made on or after January 1 of each year.

13. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

## O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southern California Water Company (Company) is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of the filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Company shall immediately institute a program to lock all above ground bleeders in its Big Bear District.

3. Company shall spend at least $200,000 per year for main replacements from 1973 through 1982.

4. Company shall file annual reports describing its main replacement program and, if desired, a request for an offset rate increase to carry the added costs of such replacements.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 16th day of AUGUST, 1977.

Robert Batinovich
President

I dissent.
William Symons, Jr.

Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

Schedule No. BB-1

BIG BEAR DISTRICT

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service. (C)

TERRITORY

Within the established Big Bear District. (C)

RATES

| Quantity Rates: | Per Meter Per Month | |
|---|---|---|
| First 500 cu.ft., per 100 cu.ft. | $ 0.25 | (I) |
| Over 500 cu.ft., per 100 cu.ft. | 0.85 | (I) |

Service Charge:

| | | |
|---|---|---|
| For 5/8 x 3/4-inch meter | $ 5.50 | (I) |
| For 3/4-inch meter | 8.25 | |
| For 1-inch meter | 11.25 | |
| For 1-1/2-inch meter | 15.00 | |
| For 2-inch meter | 20.25 | |
| For 3-inch meter | 37.50 | |
| For 4-inch meter | 51.00 | |
| For 6-inch meter | 84.75 | |
| For 8-inch meter | 126.00 | (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. (C)

(Continued)

Schedule No. BB-1

BIG BEAR DISTRICT

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITION

Applicant for service shall pay in advance an amount equal to the service charge for a period of twelve months against which billings for water service will be charged. After the advance reaches a zero balance, billing for water service will be payable by the customer. (C) | (C)

Schedule No. BBF-2

BIG BEAR DISTRICT

Fawnskin Tariff Area

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Community of Fawnskin, San Bernardino County.

RATES

| | Per Service Connection Per Month | |
|---|---|---|
| For each single unit of occupancy ..... | $7.00 | (I) |
| For each additional unit of occupancy on same premises and served from same service connection .... | 5.20 | (N) |

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.

2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. BB-1, General Metered Service.

3. Applicant for service shall pay in advance an amount equal to the monthly charge for a period of twelve months. After twelve months of service the customer will be billed at the monthly rate above.

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Rate A - Applicable within the Big Bear, Central Basin, Orange County, Pomona Valley, and Southwest Districts. (C)

Rate B - Applicable within the Barstow, Culver City, San Gabriel Valley, and Simi Valley Districts.

Rate C - Applicable within the Arden-Cordova, Bay, Calipatria-Niland, Desert, Ojai, and San Bernardino Valley Districts. (D)

RATE

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

(Continued)

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS

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

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

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

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

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