

ORIGINAL

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Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of the SOUTHERN CALIFORNIA WATER)
COMPANY for an order authorizing)
it to increase the rates for)
water service in its Metropoli-)
tan Division.)

Application No. 59426
(Filed February 4, 1980)

O'Melveny & Myers, by Guido R. Henry, Jr.,
Attorney at Law, for Southern California
Water Company, applicant.
Robert Cagen, Attorney at Law, for the
Commission staff.

O P I N I O N

Applicant, Southern California Water Company, renders public utility water service through five divisions and 21 districts in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Riverside, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara, and Ventura, and also renders public utility electric service in the vicinity of Big Bear Lake in San Bernardino County. This application is for a general increase in rates for water service in applicant's Metropolitan Division, which consists of the Central Basin District, the Culver City District, and the Southwest District, all located in the southern portion of Los Angeles County. Applicant also requests authority to consolidate these three districts and, in so doing, to establish Metropolitan Division-wide rates.

The proposed rate increases are in steps designed to increase annual revenues in test year 1980 by \$1,716,200, or 14.74 percent, over the revenues produced by rates in effect at the time this application was filed; to provide a \$379,100, or a 2.75 percent, increase in test year 1981 over revenues from rates proposed for 1980; and a \$613,700, or a 4.25 percent, increase in test year 1982 over revenues from rates proposed for 1981.

Pursuant to the "Regulatory Lag Plan" adopted by Commission Resolution No. M-4705 dated April 24, 1979, informal public meetings were held by the Commission staff in Gardena on March 24, 1980, in Norwalk on March 25, 1980, and in Culver City on March 27, 1980. Even though these meetings were held at 7:30 p.m. to accommodate people working during the day, no customers attended. Notice of the meetings had been mailed (either as a bill insert or directly) to the customers.

After due notice, public hearings were held before Administrative Law Judge A. E. Main in Los Angeles on June 4, 5, 6, and 9, 1980. The hearing on June 4 was reserved for testimony from public witnesses. None of applicant's customers attended either that day or the remaining days of hearing. At those hearings, applicant presented testimony and exhibits through its president, two vice presidents, personnel director, and manager - Rate Valuation. The staff presentation was made by a project manager, a financial analyst, and six utilities engineers. The matter was submitted on June 9, 1980 with provision for a June 30, 1980 filing of concurrent briefs addressing the proposed consolidation of districts and rate design.

Service Area and Water System

The Metropolitan Division presently consists of three separate operating districts, which are the Central Basin District, the Culver City District, and the Southwest District. The Central Basin District includes seven systems which are not physically interconnected. These systems serve areas in Los Angeles and Orange counties (approximately 40 customers in Orange County), including portions of the cities of Artesia, Bell, Bell Gardens, Cerritos, Cudahy, Downey, Hawaiian Gardens, Huntington Park, Lakewood, Long Beach, Los Alamitos, Norwalk, Paramount, Santa Fe Springs, South Gate, Vernon, and adjacent county territory.

The Culver City District covers generally the city of Culver City and a small portion of the unincorporated area of Los Angeles County adjacent thereto.

The Southwest District covers an area in the southwestern portion of Los Angeles County which is divided into two portions by what is known as the "Shoestring Strip" of the city of Los Angeles. The service area includes all of the cities of Gardena and Lawndale, a portion of the cities of Carson, Compton, El Segundo, Hawthorne, and Inglewood, and portions of the county of Los Angeles.

In the three districts the area is primarily residential and commercial with some industry. Seventy-two applicant-owned wells produce 37 percent of the total water supply. The remaining 63 percent of the total water supply is purchased, primarily, from the Metropolitan Water District (MWD) member agencies. Of the 72 applicant-owned wells, 68 are located in the hydrological areas known as the Central Basin and the West Coast Basin. Water rights in both basins have been adjudicated by actions of the Superior Court for Los Angeles County. The pertinent judgments have been approved by the Commission. The remaining four wells are located in applicant's Culver City District.

As of December 31, 1978 there were approximately 4,333,200 feet of distribution mains ranging in size up to 18 inches in diameter, 47 tanks and reservoirs with a combined capacity of 23,404,900 gallons, and water service was provided to 84,204 customers, all on metered schedules. Also, as of December 31, 1978, the historical cost of utility plant in this division was \$43,311,200 and the depreciation reserve was \$11,940,400, yielding a net depreciated cost of \$31,370,800.

Service

In the three districts applicant received 3,097 complaints from customers during 1979. The matters complained of included poor water quality, high bills, pressure, and leaks. According to the staff, such complaints are resolved to the satisfaction of the customers within a few days after being received. A review of the informal complaints on file with the Commission's Consumer Affairs Branch indicates that there were 27 complaints filed on high bills and two complaints on service between January 1, 1979 and April 15, 1980. The staff considers applicant's water quality and service in these districts to be satisfactory.

Water Conservation, Unaccounted-For Water,
and Pump Efficiency

Applicant has an established program to promote water conservation. Under that program it continues to make its staff available for presentations on conservation methods before interested groups, furnishes its customers with water conservation kits (toilet tank displacement bottles and shower head restrictors) upon request, and provides conservation reminders, periodically, through inserts mailed with customer bills.

The staff's results of operation reports (Exhibits 17-20) disclosed that the Central Basin District, which is served by seven physically separated water systems, experiences a higher unaccounted-for water percentage and receives more leak reports than either of the other two districts in the Metropolitan Division. The unaccounted-for water percentage is placed at 10.6 percent for the Central Basin District where 688 leaks were reported in 1969. This compares with 8.1 percent unaccounted-for water and 388 leaks reported for the Southwest District and with 8.0 percent unaccounted-for water and 35 leaks reported for the Culver City District.

It appears warranted that applicant investigate Central Basin District's higher unaccounted-for water and report the results to the Commission staff. Breaking down the district's totals for unaccounted-for water and leak reports to each system in the Central Basin District may point the way to needed main replacements or other improvements in facilities or practices.

As part of a program to maintain pump efficiency, it is applicant's objective to have well pumps and booster pumps tested at not longer than two-year intervals. The tests are conducted either by applicant's personnel or that of the electric utility. The test results are reviewed for discrepancies. If retesting is not indicated, departures from acceptable efficiency norms are examined to determine whether the cost of an indicated pump overhaul or replacement would be justified by the savings in power and related costs. The staff found that the pumps operating at low efficiencies in the Metropolitan Division are primarily standby or other infrequently used pumps.

Present and Proposed Rates

The basic rates in the Central Basin District were last set in 1977 by Decision No. 86970 in Application No. 56158, in the Culver City District in 1974 by Decision No. 82762 in Application No. 54095, and in the Southwest District in 1977 by Decision No. 86994 in Application No. 56440. Since those decisions were issued, the Commission has authorized three or more offset rate increases and one offset rate decrease for each of the three districts.

In these districts water service is now rendered under Schedules Nos. CB-1, CC-1, and SW-1--General Metered Service. In addition, service is rendered under company-wide Schedule No. AA-4--Private Fire Protection Service, company-wide Schedule No. AA-9--Construction and Temporary Service, and company-wide Schedule No. AA-10--Service to Company Employees. Applicant proposes to increase rates for general metered service and consolidate those rates into one schedule for the entire Metropolitan Division, to cancel public fire hydrant service schedules because this source of revenue is no longer available, and to revise company-wide Schedule No. AA-4--Private Fire Protection Service in order to include the Metropolitan Division under its Rate A.^{1/}

The following tabulation sets forth the present general metered service rates for the Central, Culver City, and Southwest Districts:

^{1/} Central and Southwest Districts are presently under Rate A, but the Culver City District is not. This proposal represents an increase from a charge of \$2.25 per inch to \$3 per inch of service for the latter district.

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Central Basin</u>	<u>District Culver City</u>	<u>South-west</u>
First 500 cu.ft., per 100 cu.ft.	\$ 0.288	\$ 0.364	\$ 0.292
Over 500 cu.ft., per 100 cu.ft.357	.424	.359
 Service Charge:			
For 5/8 x 3/4-inch meter	\$ 2.75	\$ 2.05	\$ 2.40
For 3/4-inch meter	4.25	2.25	3.90
For 1-inch meter	7.00	2.90	6.00
For 1-1/2-inch meter	10.40	4.85	9.90
For 2-inch meter	16.50	7.50	15.00
For 3-inch meter	21.00	15.00	19.00
For 4-inch meter	46.00	22.00	37.00
For 6-inch meter	70.00	37.00	63.00
For 8-inch meter	115.00	65.00	103.00
For 10-inch meter	165.00	95.00	148.00

A fire protection surcharge is applicable to metered service in the Central Basin and South-west Districts and added to charges computed at the Quantity Rates and Service Charge. (Commission Resolution No. L-213.)

The next tabulation sets forth the rates proposed by applicant for general metered service in the Metropolitan Division for years 1980, 1981, and 1982.

Metropolitan Division

Proposed Rates

	<u>Per Meter Per Month</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft.	\$ 0.337	\$ 0.347	\$ 0.359
Over 300 cu.ft., per 100 cu.ft.	0.366	0.376	0.391
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 3.10	\$ 3.20	\$ 3.40
For 3/4-inch meter	4.80	4.90	5.10
For 1-inch meter	7.60	7.80	8.20
For 1-1/2-inch meter	11.20	11.50	12.00
For 2-inch meter	17.40	18.00	19.00
For 3-inch meter	23.00	24.00	25.00
For 4-inch meter	47.00	49.00	50.00
For 6-inch meter	72.00	74.00	76.00
For 8-inch meter	118.00	122.00	128.00
For 10-inch meter	169.00	174.00	182.00

Fire Protection Surcharge

Assembly Bill No. 1653 (Public Utilities Code Section 2713) ✓
 prohibits a water utility from charging fire protection agencies within its service territory for any fees heretofore collected in connection with the furnishing of fire suppressant services in the absence of a written contract. With the passage of that bill, those agencies with which applicant had written contracts cancelled them and all of the fire protection agencies in applicant's service areas refused to pay any fees.

Applicant's president testified that applicant both separately and in concert with the California Water Association sought to establish a new contract with the Los Angeles County Fire Protection District. The contract sought purportedly would serve as a model contract for the industry. Although there are, according to this witness, good prospects for reaching an operational agreement, the chances of either obtaining any revenues from this source or having the fire protection agencies perform any required maintenance are nil.

Applicant is currently recovering fire protection revenues through a surcharge in the Central Basin and Southwest Districts, pursuant to Commission Resolution No. L-213. The Culver City District was not eligible for the surcharge because its public fire protection service revenues were less than one percent of its total revenues. Applicant has notified its customers in the Central Basin and Southwest Districts of the surcharge for fire protection by both a notation on their bills and a bill insert. This surcharge will no longer be kept separate. Rather, it will be folded into the service charge portion of the rates for general metered service authorized by this decision. Customers should be informed that in the future the surcharge will be included in the rates.

Consolidation Proposal

As indicated earlier in this decision, applicant proposes to consolidate the Central Basin, Culver City, and Southwest Districts. These three districts lie within the southern area of Los Angeles County in the Los Angeles basin. At the closest points of proximity, the Culver City District service area is within four miles of the Southwest District service area which, in turn, lies within two miles of the Central Basin District. Accordingly, rainfall and temperature are similar for the three districts. In addition, the

three districts purchase water from member agencies of the MWD, purchase electricity from Southern California Edison Company, and purchase natural gas from Southern California Gas Company. Customers in all three districts are billed primarily bimonthly under service-charge-type rate structures with two-tier inverted quantity rates: one rate for lifeline (0-5 Ccf) and another rate for over 5 Ccf per month.

As separate districts, each of the three districts requires separate paper work and accounting to comply with the Uniform System of Accounts for Class A water utilities. In essence, applicant must keep its books of account, and such other books, records, and memoranda which support, or are necessary to an understanding of, the entries in such books of account, as to furnish readily full information by districts as to any item included in any account. In the day-to-day operations of these three districts, this accounting requirement tends to hinder the interchange of personnel, limit the free use of equipment, and result, to a limited extent, in the maintenance of multiple inventories.

It is applicant's position that the consolidation proposal made in this proceeding is a further and important step in its long-standing program to reduce regulatory expense to its ratepayers, to reduce regulatory lag, and to minimize the ratemaking burden on the Commission by reducing the number of applicant's tariff districts. Applicant argues that the effectiveness of its program can be easily appreciated by recognizing that the area now served by the three districts involved in this proceeding was once divided into 12 districts. If applicant had not continued to pursue a policy of consolidation, the present proceeding would be merely one of 12 proceedings involving 12 applications, 12 sets of staff studies and reports, 12 hearings, 12 rate designs, and 12 Commission decisions.

If the districts are combined as proposed, applicant contends that ratemaking can be expected to take only about one-third as much time and expense as for the three districts kept separately. Applicant further contends that not only would the number of rate cases be cut by two-thirds, but two out of three future advice letter filings would be eliminated. This would be true because changes in rates for purchased water, power, or labor would be common throughout the three-district consolidation.

The Commission staff supports the consolidation of the Central Basin and Southwest Districts but opposes the consolidation of the Culver City District with the other two districts, primarily because of rate structure differences. As can be seen in the tabulation below comparing present rates for general metered service in the three districts, the service charges are lower and the quantity rates are higher in the Culver City District.

	<u>Per Meter Per Month</u>		
	<u>Central Basin</u>	<u>District Culver City</u>	<u>Southwest</u>
Quantity Rates:			
First 500 cu.ft., per 100 cu.ft.	\$ 0.288	\$ 0.364	\$ 0.292
Over 500 cu.ft., per 100 cu.ft.357	.424	.359
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 2.75	\$ 2.05	\$ 2.40
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For 2-inch meter	16.50	7.50	15.00
For 3-inch meter	21.00	15.00	19.00
For 4-inch meter	46.00	22.00	37.00
For 6-inch meter	70.00	37.00	63.00
For 8-inch meter	115.00	65.00	103.00
For 10-inch meter	165.00	95.00	148.00

The staff also made the following comparison of revenues, expenses, and rate base per customer:

Year 1980 at Current Rates

<u>Item</u>	<u>Central Basin District</u>	<u>Culver City District</u>	<u>Southwest District</u>	<u>Metropolitan Division</u>
No. of Customers	34,366	8,586	43,036	85,988
Revenues	\$138.60	\$172.10	\$149.00	\$147.20
Expenses	99.10	126.10	104.90	104.70
Rate Base	302.50	374.60	315.80	316.30

It is the staff position that districts which vary widely in terms of expenses, rate bases, and rates should not be consolidated. However, from applicant's standpoint, if a district is to be omitted from the consolidation, it should not be Culver City, the smallest of the three districts. Because of its smaller size, the Culver City District lacks flexibility of manpower and has a higher per customer cost of operations. ✓

To provide some perspective on whether the combination of districts would result generally in unreasonable rate changes, applicant presented in Exhibit 24 calculations which set forth the increases in each of the districts that would be experienced by typical users if applicant's proposed rates were adopted. These calculations showed that the average bill increase for Central Basin would be \$8.29 per year, Culver City would be \$10.41 per year, and Southwest would be \$13.33 per year. They further showed that the median bill is for 10 Ccf per month in the Culver City District; that the resultant bill for a 5/8 x 3/4-inch meter @ 10 Ccf under current rates is \$6.09 in the Central Basin District, \$5.99 in the Culver City District, and \$5.79 in the Southwest District; and that the bill under present rates for a 5/8 x 3/4-inch meter at the mean consumption of 15 Ccf in the Central Basin District is \$7.87, at the mean consumption of 12 Ccf in the Culver City District

is \$6.84, and at the mean consumption of 14 Ccf in the Southwest District is \$7.22. In certain special cases, however, wide disparities will be inevitable. An example of this, which was used by the staff, would be a Culver City customer served by a two-inch meter with zero usage in a given month.

In our view neither rate history nor disparate results in isolated cases provide more than at most a tenuous basis for retention of the rate differences presently existing in the three districts, when weighed against the similarities of the three districts. The following circumstances fully justify the consolidation of the three districts: (1) All three districts purchase water from the same source at the same rates, purchase power from the same source at the same rates, and have the same employee pay scale; (2) they all are in the southern portion of the Los Angeles basin and thus share in the same rainfall and experience common temperature conditions; and (3) they all have predominantly "commercial" class customers, primarily residential, whose water use patterns are quite similar. We are persuaded that the consolidation of the three districts will be cost-effective. The consolidation of the three districts, as proposed by applicant, will be authorized.

Transfers of Water System Properties
and Service Areas

Pursuant to Decision No. 91436 dated March 18, 1980 in Application No. 59165, applicant's Metropolitan Division acquired portions of Park Water Company's service area and properties summarized as follows:

District	Central Basin	Southwest	Central Basin	
Location	La Mirada	Gardena	Hawaiian Gardens	Total
No. of Customers	355	646	388	1,389
Service Area, Acres	99	120	116	335
Revenue, 1978 Recorded	\$38,610	\$43,837	\$41,796	\$124,243
Rate Base	\$40,119	\$129,873	\$118,186	\$288,178

Pursuant to that same decision, Park Water Company acquired a portion of applicant's service area and properties in the Metropolitan Division as summarized by the following tabulation:

District	Southwest	Central Basin	
Location	Compton	Norwalk	Total
No. of Customers	226	166	392
Service Area, Acres	50	55	105
Revenue, 1978 Recorded	\$26,763	\$18,594	\$45,357
Rate Base	\$14,504	\$26,257	\$40,761

On May 23, 1980 applicant mailed the following notice of hearing to the former Park Water Company customers:

"Effective May 1, 1980 Southern California Water Company assumed responsibility for your water service. For the present your bill will be computed at the rates that were in effect for the predecessor water company which are somewhat higher than the rates of our other customers in your area. However, the Southern California Water Company filed an application with the California Public Utilities Commission for a general increase in water rates in its Metropolitan Division, which is your service area. This application was filed on February 1, 1980 and requests that all customers be assigned the same water rate.

"While the application requests an increase of 23.3% spread over a four-year period to other customers, we estimate that the average residential former Park Water Company customer will not experience an increased water bill based on this application. Certain specific cost increases such as cost of energy or cost of purchased water that may be in effect at the time of the Decision but are not reflected in the application are also requested to be included in the rates authorized for all customers and could increase your water bill.

"A copy of the application is available for inspection at the Commission's office and at the following Company offices:

"Artesia	11818 East 186th Street	(213) 865-2111
"Gardena	2108 West Redondo Beach Blvd.	(213) 538-2970
"Norwalk	11947 East Firestone Blvd.	(213) 804-8214
"Los Angeles	3625 West Sixth Street	(213) 386-7800

"Formal public hearings for this application will commence on June 4, 1980, at 10:00 a.m., in the Commission Courtroom, State Office Building, 107 South Broadway, Los Angeles, California 90012. One of the purposes of the public hearings is to provide an opportunity for customers to attend and be heard by the Commission on any matters relating to rates or service."

The applicability of rates authorized by this decision will extend to the service areas in the Metropolitan Division acquired by applicant from Park Water Company.

Need For Rate Relief

Applicant stated in the application that at the rates then in effect its rate of return on rate base will slip to 6.94 percent in estimated test year 1980. Increases in the costs of purchased water and power, labor, postage, and liability insurance, increases in depreciation and payroll taxes, and increased interest rates are cited as primary reasons for seeking the rate relief.

Rate of Return

In September 1979 applicant developed the rates proposed in this application using a sufficient return on rate base to yield a 14.5 percent return on common equity. It was applicant's judgment at that time that the 14.5 percent was the minimum required by applicant to attract capital at reasonable cost and to maintain appropriate borrowing capability or credit.

In June 1980 applicant's president testified that a 14.5 percent return on common equity was no longer adequate. Based primarily on the upward movement in interest or dividend rates on senior securities and the related inference that applicant would not be able to market new issues of its senior securities other than at a substantial premium over their prior peak rates, it was his judgment that a 16.0 percent return on common equity would now be required for applicant. Applicant, however, has not altered the rate relief requested in its application. The staff witness places the fair return on applicant's common equity at 13.4 percent.

For determining fair rate of return in this proceeding, applicant accepts the use of average-year and uniform capital ratios, as well as embedded and short-term debt and preferred stock costs, developed by the staff for years 1980, 1981, and 1982. Accordingly, the respective rate of return recommendations of the staff and applicant are as shown in the following tabulation:

Item	Capitalization Ratio	Effective Rate	Staff Weighted Cost	Applicant Weighted Cost
Average Year 1980*				
Long-Term Debt	46.00%	7.21%	3.32%	3.32%
Short-Term Debt	3.00	16.00	.48	.48
Preferred Stock	14.00	7.80	1.09	1.09
Common Equity	<u>37.00</u>	13.40/16.00	<u>4.96</u>	<u>5.92</u>
Total	<u>100.00%</u>		<u>9.85%</u>	<u>10.81%</u>
Average Year 1981*				
Long-Term Debt	46.00%	7.38%	3.39%	3.39%
Short-Term Debt	3.00	13.00	.39	.39
Preferred Stock	14.00	7.81	1.09	1.09
Common Equity	<u>37.00</u>	13.40/16.00	<u>4.96</u>	<u>5.92</u>
Total	<u>100.00%</u>		<u>9.83%</u>	<u>10.79%</u>
Average Year 1982*				
Long-Term Debt	46.00%	7.72%	3.55%	3.55%
Short-Term Debt	3.00	12.00	.36	.36
Preferred Stock	14.00	7.82	1.09	1.09
Common Equity	<u>37.00</u>	13.40/16.00	<u>4.96</u>	<u>5.92</u>
Total	<u>100.00%</u>		<u>9.96%</u>	<u>10.92%</u>

*Assumes new financing of \$6 million common stock and \$1 million short-term debt in 1980, \$3 million long-term debt in 1981, and \$3 million long-term debt in 1982.

In testimony concerning the 10-year period 1970-1979 applicant's president observed that the return on common equity realized by applicant has been consistently lower than that authorized by the Commission; that income taxes have declined, reflecting along with lower taxable earnings, the flow through of economies made as well as investment tax credit and liberalized depreciation. The witness further testified that the common equity ratio has declined from about 36 percent to about 32 percent, necessitating a common stock issue this year which will bring that ratio up to about 37 percent and in so doing will improve the interest and preferred dividend

coverage. He stressed that, even at a 37 percent common equity ratio, applicant will still be in a higher risk position from that standpoint than most other California water utilities or other major utilities in California. He added that in recent years the risk inherent in earnings volatility has increased for applicant as a result of the inverted rate structures mandated by the Commission. He also indicated that difficulties in obtaining timely rate relief in 21 separate districts in inflationary times exercises a downward pressure on earnings.

In reaching her return on common equity recommendation of 13.4 percent the staff witness, among other things, considered:

Equity Ratio - From 1970 through 1975 applicant's common equity ratio averaged 35.8 percent. After purchase of California Cities Water Company, the equity ratio fell to 31.5 percent, a level which is well below average for this type of utility. In general investors require returns commensurate with the amount of leverage in a company's capital structure in recognition of the percent of earnings which must go to fixed charges prior to payment of common stock dividends. Applicant plans to issue \$6 million in common stock during 1980 in order to increase its low equity ratio.

Past Performance - For the 10-year period 1970-1979 applicant's earnings to book value, equivalent to the return on common equity, have fluctuated between 9.43 and 11.89 percent. Earnings available for common stock totalled \$22 million over the period of which \$15 million was paid out in dividends. Applicant increased dividends paid per share each year. A further dividend increase was authorized by applicant's board of directors in April 1980 bringing the annual dividend rate to \$1.40 per share.

Comparative Earnings - For the five-year period 1975-1979 the earnings rates on common equity and total capital, common equity ratios, and after-tax interest coverages of applicant and 13 other water utilities located throughout the United States and California were compared. Applicant's highly leveraged capital structure is reflected in the recorded earnings rate on average total capital which is below average despite the fact that applicant's average earnings rate on common equity was second highest among the California companies. Applicant's equity ratio was also below average when compared with the regional companies.

Recently Authorized Rates of Return - A list of rates of return authorized by the Commission for Class A water utilities in 1978, 1979, and through April 1980 was examined. Applicant received rate relief in four districts in 1978 and 1979. In the two most recent of those rate relief decisions (Decision No. 91024 dated November 20, 1979 on applicant's Ojai District and Decision No. 90660 dated August 14, 1979 on Calipatria-Niland District) the Commission authorized a return on common equity of 13.00 percent and granted step rates for financial attrition. In April 1980 the Commission, by Decision No. 91537, et al., authorized a 13.20 percent return on common equity, which was 42.02 percent of the capital structure, for various districts of California Water Service.

The staff-recommended rates of return for the years 1980, 1981, and 1982 of 9.85 percent, 9.83 percent, and 9.96 percent, respectively, are based on average-year capital costs and include a uniform allowance for common equity of 13.40 percent and an allowance for financial attrition. These rates of return should provide sufficient earnings for applicant to meet its debt and preferred stock obligations and allow for moderate growth in retained earnings after payments of reasonable dividends. In our judgment, the rates of return recommended by the staff are reasonable and strike a balance between the consumers' short-term concern of obtaining the lowest possible rates while maintaining good water service over the long run. The staff recommendation is adopted.

Results of Operation

To evaluate the need for rate relief, witnesses for applicant and the Commission staff have analyzed and estimated for test years 1980 and 1981 applicant's operating revenues, operating expenses, and rate base. The staff's study of operating results (Exhibits 16 through 21) was based, in part, on later information than that available in September 1979 when applicant prepared its study (Exhibit 7). In Exhibit 22 applicant accepted the staff's estimates with several adjustments. In Table 1, which follows, the results for test years 1980 and 1981 as shown in Exhibit 22 and the operating results we adopt are set forth.

TABLE 1

SOUTHERN CALIFORNIA WATER COMPANY

Estimated Results of Operation

Test Year 1980

(Page 1 of 2)

Item	Present Rates*				Authorized
	Staff	Current Costs	Payroll & Rate Base	Applicant	Results

(Dollars in Thousands)

Central Basin, Culver City, and Southwest Districts

Operating Revenues	\$12,923.5	\$ -	\$ -	\$12,923.5	\$14,442.5
<u>Operating Expenses</u>					
Oper. & Maint.	7,882.0	416.1	12.2	8,310.3	8,315.3
Admin. & Gen.	662.5	-	0.9	663.4	685.7
Gen. Off. Prorated	461.0	-	-	461.0	461.0
Depreciation	693.3	-	-	693.3	693.3
Taxes Other Than Inc.	456.4	-	0.8	457.2	457.2
Subtotal	10,155.2	416.1	13.9	10,585.2	10,612.5
Income Taxes ***	556.3	(191.0)	(14.2)	351.1	1,114.6
Total	10,711.5	225.1	(0.3)	10,936.3	11,727.1
Net Operating Rev.	2,212.0	(225.1)	0.3	1,987.2	2,715.4
Rate Base	27,201.4	-	365.9	27,567.3	27,567.3
Rate of Return	8.13%			7.21%	9.85%

Central Basin District

Operating Revenues	4,820.5	-	-	4,820.5	N.A.
Operating Expenses	4,029.4	32.4	(1.2)	4,060.6	N.A.
Net Oper. Revenues	791.1	(32.4)	1.2	759.9	N.A.
Rate Base	10,394.8	-	221.2	10,616.0	N.A.
Rate of Return	7.61%			7.16%	N.A.

Culver City District

Operating Revenues	1,517.9	-	-	1,517.9	N.A.
Operating Expenses	1,243.2	44.0	0.8	1,288.0	N.A.
Net Oper. Revenues	274.7	(44.0)	(0.8)	229.9	N.A.
Rate Base	3,216.4	-	-	3,216.4	N.A.
Rate of Return	8.54%			7.15%	N.A.

Southwest District

Operating Revenues	6,585.1	-	-	6,585.1	N.A.
Operating Expenses	5,438.8	148.7	0.1	5,587.6	N.A.
Net Oper. Revenues	1,146.3	(148.7)	(0.1)	997.5	N.A.
Rate Base	13,590.2	-	144.7	13,734.9	N.A.
Rate of Return	8.43%			7.26%	N.A.

*Rates in effect as of April 2, 1980.

**Uniform rates for all three districts.

***Exhibit 22 income tax computation corrected.

TABLE 1

SOUTHERN CALIFORNIA WATER COMPANY

Estimated Results of Operation

Test Year 1981
(Page 2 of 2)

Item	Present Rates*				Authorized
	Adjustments For ***				Rates**
	Current	Payroll &	Staff	Costs	Rate Base
	Applicant	Rate Base	Applicant	Results	Results

(Dollars in Thousands)

Central Basin, Culver City, and Southwest Districts

Operating Revenues	\$13,030.6	\$ -	\$ -	\$13,030.6	\$14,814.7
<u>Operating Expenses</u>					
Oper. & Maint.	8,110.8	382.6	37.6	8,531.0	8,536.8
Admin. & Gen.	696.0	-	3.1	699.1	725.3
Gen. Off. Prorated	497.2	-	-	497.2	497.2
Depreciation	688.3	-	-	688.3	688.3
Taxes Other Than Inc.	478.1	-	2.7	480.8	480.8
Subtotal	10,470.4	382.6	43.4	10,896.4	10,928.4
Income Taxes ***	389.8	(153.3)	(29.3)	207.2	1,104.0
Total	10,860.2	229.3	14.1	11,103.6	12,032.4
Net Operating Revenues	2,170.4	(229.3)	(14.1)	1,927.0	2,782.3
Rate Base	27,937.9	-	366.0	28,303.9	28,303.9
Rate of Return	7.77%			6.81%	9.83%

Central Basin District

Operating Revenues	4,841.0	-	-	4,841.0	N.A.
Operating Expenses	4,067.1	29.1	5.4	4,101.6	N.A.
Net Oper. Revenues	773.9	(29.1)	(5.4)	739.4	N.A.
Rate Base	10,780.3	-	221.3	11,001.6	N.A.
Rate of Return	7.18%			6.72%	N.A.

Culver City District

Operating Revenues	1,559.8	-	-	1,559.8	N.A.
Operating Expenses	1,278.5	46.9	2.3	1,327.7	N.A.
Net Oper. Revenues	281.3	(46.9)	(2.3)	231.1	N.A.
Rate Base	3,399.4	-	-	3,399.4	N.A.
Rate of Return	8.27%			6.83%	N.A.

Southwest District

Operating Revenues	6,629.8	-	-	6,629.8	N.A.
Operating Expenses	5,514.5	153.3	6.4	5,674.1	N.A.
Net Oper. Revenues	1,115.3	(153.3)	(6.4)	955.6	N.A.
Rate Base	13,758.2	-	144.7	13,902.9	N.A.
Rate of Return	8.11%			6.87%	N.A.

*Rates in effect as of April 2, 1980.
**Uniform rates for all three districts.

***Exhibit 22 income tax computation corrected.

The differences between the estimates of applicant and the staff, after applicant's basically accepting the staff estimates, are accounted for in the adjustments shown in Table 1 for current costs, payroll, and rate base. We will now address these differences for test year 1980. Our discussion applies equally to test year 1981.

Applicant's upward adjustment of \$416,100 in operation and maintenance expense in the three districts for current costs consists of:

Purchased Water	\$442,700
Purchased Power	167,500
Pump Taxes	<u>(194,100)</u>
Total	\$416,100

This adjustment was made to reflect purchased (MWD) water rates effective July 1, 1980, the rates in effect on June 5, 1980 for purchased power, and the pump tax rates in effect also as of June 5, 1980.

The staff policy witness opposed this adjustment on the grounds that the staff cannot analyze adequately these changes in operating costs at such a late stage in the proceeding. However, the estimates of the staff witness responsible for operation and maintenance expense verified the accuracy and validity of the \$416,100 adjustment. (In its application applicant requested "...that the effect of increases or decreases in the rates purchased water, energy...in effect at the time of the Decision should be included in the rates authorized.")

The adjustment for payroll consists of \$12,200 in operation and maintenance expense, \$900 in administrative and general expense, and \$800 in payroll taxes for the three districts. Its purpose is to make the staff estimate of payroll expensed more representative of the wage expense actually to be incurred.

The staff estimated the expensed portion of applicant's payroll for 1980 by increasing the recorded 1979 payroll expensed by 9½ percent. In the staff exhibits (Exhibits 17-20) on operating results, it was stated that the staff's "usage of 9½ percent wage increase for 1980 is in compliance with the Council on Wage and Price Stability guidelines allowing increases in wages and related benefits to be no more than 9½ percent."

However, applicant granted an 11½ percent wage increase to all its nonunion employees, except executives, on October 1, 1979 and presented uncontroverted evidence that the 11½ percent wage increase is in compliance with the voluntary wage guidelines. The increase applies to all of applicant's nonexecutive employees engaged in water utility operations, since it is only those employees engaged in applicant's electric operations at Big Bear who are union members.

According to Exhibit 15 and the testimony of applicant's personnel director:

- (1) A pay plan containing a cost-of-living allowance (COLA) may be established for nonunion employees under the pay and price standards of the Council on Wage and Price Stability. The plan must extend beyond one year in duration and must be evaluated prospectively using an assumed 6 percent rate of increase in the Consumers Price Index (CPI). (Part 705B-3C Pay and Price Standards, FR 12-28-78, IIE, Q-11 amended, FR 1-25-79, IIE, Q-17.)

- (2) Applicant established a pay plan containing a COLA for the period October 1, 1979 to October 1, 1981. The plan was tested for compliance using an assumed 6 percent rate of increase and thus met the requirement of less than a 7 percent (then in effect, but now 9½ percent) increase.
- (3) The COLA is based upon the latest increase or decrease in the CPI. On October 1, 1979 the increase in the CPI for July 1979 over July 1978 was 11.5 percent. A COLA of 11.5 percent was granted by applicant to all its nonunion employees, except executives, on October 1, 1979. A COLA will be granted to the same group of employees on October 1, 1980 based upon the increase or decrease in the CPI from July 1979 to July 1980. Because the only increase is the COLA, it is assumed to be 6 percent regardless of its actual amount, consistent with the requirement that the plan must be evaluated prospectively, as shown in the tabular summary below:

<u>Plan</u>	<u>Compliance Test</u>	<u>Test Limit</u>	<u>Actual Experienced</u>
COLA equals actual change in CPI	Assumes 6% increase	7%	11.5%
		6% < 7%	

In rebuttal the staff witness testified that it is staff policy to hold wage increases for ratemaking purposes to 9½ percent or less. It was not clear from this testimony whether the 9½ percent upper limit came from an interpretation of the Council on Wage and Price Stability guidelines which failed to reach the COLA plan option or whether there might have been some other basis for it. In the latter event the record is silent as to what that basis was and what merit it may have.

In its estimated operating results prepared in September 1979 for filing with the Notice of Intent and Exhibit 7 in this proceeding, applicant used the 1978 recorded payroll and increased it at the yearly rate of 7 percent per year for the years 1979, 1980, and 1981. The staff, as previously stated, estimated payroll by increasing the 1979 payroll by 9½ percent for 1980. For 1981 the staff increased its estimate of 1980 payroll expensed by 7 percent.

By Exhibit 22, applicant made adjustments of \$13,100 for 1980 and \$40,700 for 1981 to the staff estimates of applicant's payroll expensed to reflect the 11½ percent wage increase in effect for the first nine months of 1980 plus an assumed increase of 9½ percent to be granted on the anniversary date (October 1, 1980) of the two-year COLA plan. With these adjustments the staff estimates of payroll expensed become more representative of the wage expense actually incurred or to be incurred. Because of that and because applicant's two-year COLA plan has been shown to comply with the guidelines of the Council on Wage and Price Stability, our adopted operating results have included applicant's Exhibit 22 estimates of payroll expensed.

In our adopted operating results income taxes were computed in part by deducting from taxable income interest expense at a level consistent with the debt components used in developing the fair rate of return for applicant. The income tax computations are attached to this decision as Appendix C. Our adopted operating results include the adjustment of \$416,100 for current costs. They also include the rate base adjustment of \$365,900 which was adopted by the staff witness responsible for estimating rate base after verifying its validity.

Authorized Revenue Increases

By comparing the entries for operating revenues in Table 1 hereinabove, it can be seen that (1) the rates to be authorized for test year 1980 yield additional gross revenues of \$1,519,000 which represent an 11.75 percent increase over revenues at present rates and (2) the rates to be authorized for test year 1981 yield additional gross revenues of \$1,784,100 which represent a 13.69 percent

increase over revenues at present rates. In addition a third set of rates will be authorized to allow for attrition in rate of return after test year 1981. This is in keeping with our intention that the districts of Class A water utilities will not file a general rate increase application more often than once in three years.

The attrition to be allowed for after 1981 has an operational component and a financial component. Its operational component is 0.40 percent as indicated by the 1980 rate of return of 7.21 percent declining to 6.81 percent for 1981 at present rates as shown in Table 1. Its financial component is the staff estimate of financial attrition in rate of return of 0.13 percent between years 1981 and 1982 which was accepted as reasonable by applicant.

To offset the 0.53 percent combined financial-operational attrition rate, we will authorize a step increase for 1982 of \$312,900. Applicant will be required to file an advice letter with supporting work papers on or after November 15, 1981 to justify such an increase. Fixing rates in this way results in a better matching of the consumers' interests than setting a high initial rate which would yield the adopted rate of return for a three-year average. The required supplemental filings will permit review of achieved rates of return before the final step increase is granted.

Rate Design

The staff recommends the acceptance of applicant's proposal to reduce the quantity in the first tier (lifeline) of its two-tier inverted rates for general metered service from 5 Ccf to 3 Ccf. We have uniformly established lifeline quantities of water at 3 Ccf in connection with the establishment of revision of rates for other comparable water companies on a statewide basis.

The staff further recommends that the rate for the lifeline quantity and the service charge for the 5/8 x 3/4-inch meter remain unchanged until such time as total revenues in a district have been increased 25 percent and that after reaching that point the authorized increases be spread equally to service charges

and quantity charges. Applicant advocates a lifeline principle under which the 25 percent increase criterion is applied to the nonlifeline element of revenue rather than total revenue.

In Decision No. 91537 dated April 2, 1980, applicable to rate design in five districts of California Water Service Company, a lifeline rate policy was followed of holding lifeline rates constant until such time as total revenues in a district have been increased 25 percent and, thereafter, to increase lifeline rates by the same percentage as total revenues are increased. In this decision we will also follow that policy after adapting it to accommodate the three-district consolidation which we are authorizing.

It has been determined that since January 1, 1976 revenues have been increased through rate increases by 29.7 percent in the Central Basin District, 14.4 percent in the Culver City District, 19.9 percent in the Southwest District, and 22.9 percent in the three districts combined on a weighted average basis. On the combined-district basis a further revenue increase of 1.71 percent (i.e., $\frac{125}{122.9} \times 100\% - 100\% = 1.71\%$) will meet the 25 percent criterion, which is required to be met before lifeline rates are increased.

In the following tabulation we have combined, on a weighted average basis, the present rates for the three districts for comparison with the rates for test year 1980 to be prescribed in Appendix A to this decision.

Culver City, Central Basin,
and Southwest Districts Combined

COMPARISON OF MONTHLY RATES

Item	Present* Rates	Authorized Rates 1980
<u>Service Charge:</u>		
For 5/8 x 3/4-inch meter	\$ 2.63	\$ 2.92
For 3/4-inch meter	4.16	4.70
For 1-inch meter	5.92	6.70
For 1-1/2-inch meter	9.46	11.00
For 2-inch meter	14.90	17.00
For 3-inch meter	19.40	22.00
For 4-inch meter	38.13	43.00
For 6-inch meter	55.07	63.00
For 8-inch meter	88.49	101.00
For 10-inch meter	139.48	159.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	\$ 0.298	\$ 0.328
For the next 200 cu.ft., per 100 cu.ft.	0.298	0.403
For over 500 cu.ft., per 100 cu.ft.	0.366	0.403

*Weighted average present rates including public fire protection surcharge.

Wage and Price Standards

By Resolution No. M-4704 dated January 30, 1979, the Commission ordered all utilities and regulated entities requesting general rate increases to submit an exhibit with their applications to show whether the requested increase complies with the Voluntary Wage and Price Standards issued by the Council on Wage and Price Stability. Applicant's Exhibits 11 and 15 show that (1) wage increases granted by applicant and (2) the requested rate increases, together with step increases in other districts, are within the established guidelines.

Findings of Fact

1. Applicant's service, conservation program, pump efficiency program, and water quality are satisfactory.
2. The consolidation of the Central Basin, Culver City, and Southwest Districts should be cost-effective in that less regulatory and accounting expenses, as well as operating costs, will be incurred than without consolidation. The consolidation as proposed by applicant should result generally in reasonable rate changes and is warranted.
3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test years 1980 and 1981 and an annual fixed-rate decline of 0.40 percent in rate of return into 1982 due to operational attrition reasonably indicate the results of applicant's future operations.
4. Rates of return of 9.85, 9.83, and 9.96 percent, respectively, on applicant's rate base for 1979, 1980, and 1981 are reasonable. The related return on common equity each year is 13.40 percent. This will require an increase of \$1,519,000, or 11.75 percent, in annual revenues for 1980; a further increase of \$269,100, or 1.85 percent, for 1981; and a further increase of \$312,900, or 2.11 percent, for 1982.

5. The adopted rate design is reasonable.

6. 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.

7. The further increases authorized in Appendix B should be appropriately modified in the event the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1980 and/or September 30, 1981, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision or (b) 9.85 percent for 1980 and 9.83 percent for 1981.

Conclusions of Law

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

2. Because of the immediate need for additional revenues, the effective date of the following order should be the date hereof.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant, Southern California Water Company, is authorized to:

- (a) Consolidate its Central Basin, Culver City, and Southwest Districts, permitting uniform rates throughout its Metropolitan Division; and
- (b) File for its Metropolitan Division the revised rate schedules attached to this order as Appendix A. 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 filing. The revised schedules shall apply only to service rendered on and after the effective date hereof.

2. On or after November 15, 1980 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Metropolitan Division rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1980, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision or (b) 9.85 percent. Such filing shall comply with General Order No. 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedule shall be no earlier than January 1, 1981, or thirty days after the filing of the step rates, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1981 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Metropolitan Division rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1981, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision or (b) 9.83 percent. Such filing shall comply with

General Order No. 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedule shall be no earlier than January 1, 1982, or thirty days after the filing of the step rates, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated SEP 16 1980, at San Francisco, California.

John E. Suran
President
William J. Sturgeon
Robert D. Swoboda
Charles J. Daniels
Samuel J. ...
Commissioners

APPENDIX A
Page 1 of 2

SOUTHERN CALIFORNIA WATER COMPANY
Metropolitan Division

SCHEDULE NO. ME-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Artesia, Bell, Bell Gardens, Carson, Cerritos, Compton, Cudahy, Culver City, Downey, El Segundo, Gardena, Hawaiian Gardens, Hawthorne, Huntington Park, Inglewood, Lakewood, Lawndale, Long Beach, Norwalk, Paramount, Santa Fe Springs, South Gate, Vernon, and the communities of Athens, Lennox and Moneta and vicinity, Los Angeles County, and portions of the City of Los Alamitos and vicinity, Orange County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.92	(I)
For 3/4-inch meter	4.70	
For 1-inch meter	6.70	
For 1-1/2-inch meter	11.00	
For 2-inch meter	17.00	
For 3-inch meter	22.00	
For 4-inch meter	43.00	
For 6-inch meter	63.00	
For 8-inch meter	101.00	
For 10-inch meter	159.00	(I)

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	\$0.328	(C)(I)
Over 300 cu.ft., per 100 cu.ft.....	0.403	(C)(I)

The service charge applies to all metered service connections, to it is added the charge for water used during the month at quantity rates.

APPENDIX A
Page 2 of 2

SOUTHERN CALIFORNIA WATER COMPANY

All Districts

Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATE

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

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. The facilities paid for by the applicant shall be the sole property of the applicant.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connection for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for 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.

APPENDIX B

SOUTHERN CALIFORNIA WATER COMPANY
Metropolitan Division

AUTHORIZED INCREASE IN RATES

Each of the following increases in rates may be put into effect on the dates indicated by filing a rate schedule adding the appropriate increase to the existing rates in effect prior to the date.

	<u>Rates to be Effective</u>	
	<u>1-1-81</u>	<u>1-1-82</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$0.06	\$0.06
For 3/4-inch meter	0.10	0.10
For 1-inch meter	0.10	0.20
For 1½-inch meter	0.20	0.20
For 2-inch meter	-	1.00
For 3-inch meter	-	1.00
For 4-inch meter	1.00	1.00
For 6-inch meter	1.00	1.00
For 8-inch meter	2.00	2.00
For 10-inch meter	3.00	3.00
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	0.007	0.007
Over 300 cu.ft., per 100 cu.ft.	0.008	0.008

APPENDIX C

SOUTHERN CALIFORNIA WATER COMPANY
METROPOLITAN DIVISIONAdopted Tax Calculation

:Line: : No.:	Item	: Test Year 1980 :		: Test Year 1981 :	
		: CCFT :	: FIT :	: CCFT :	: FIT :
(Dollars in Thousands)					
1	Operating Revenues	\$14,442.5	\$14,442.5	\$14,814.7	\$14,814.7
	<u>Expenses:</u>				
2	Operation & Maintenance	9,462.0	9,462.0	9,759.3	9,759.3
3	Taxes Other Than Income	457.2	457.2	480.8	480.8
4	CCFT	-	242.3	-	242.3
5	Subtotal	9,919.2	10,161.5	10,240.1	10,482.4
	<u>Deductions From Taxable Income:</u>				
6	Tax Depreciation	961.5	1,060.3	989.6	1,091.3
7	Ad Valorem Tax Adjustment	-	-	-	-
8	Interest	1,037.4	1,037.4	1,059.7	1,059.7
9	Preferred Stock Div. Credit	-	3.5	-	3.5
10	Subtotal Deductions	1,998.9	2,101.2	2,049.3	2,154.5
11	Net Taxable Income (CCFT)	2,524.4	-	2,525.3	-
12	CCFT	242.3	-	242.3	-
13	Total CCFT	242.3	-	242.3	-
14	Net Taxable Income For FIT	-	2,179.8	-	2,177.8
15	Federal Income Tax	-	1,002.6	-	1,001.6
16	Graduated Tax Adjustment	-	-6.9	-	-6.9
17	Federal Income Tax Before Adj.	-	995.7	-	994.7
18	Investment Tax Credit	-	-123.4	-	-133.0
19	Total FIT	-	872.3	-	861.7