

Decision 93427 August 18, 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of the SOUTHERN CALIFORNIA WATER)
COMPANY for an order authorizing)
it to increase the rates for water)
service in its Orange County)
District.)

Application 60291
(Filed February 24, 1981)

O'Melveny & Myers, by Guido R. Henry, Jr.,
Attorney at Law, for applicant.
Richard Rosenberg, Attorney at Law, for the
Commission Staff.

INTERIM OPINION

Southern California Water Company (SoCal) requests authority to consolidate the Orange County District and the Cowan Heights District into one Orange County District, to increase rates in the former Orange County District, and to maintain the present rates applicable in the Cowan Heights District. The increases requested for the consolidated Orange County District are 23.9% or \$1,219,900 increase in 1981 over the rates in effect on November 30, 1980 (present rates), 7.6% or \$483,100 increase in 1982 over 1981 proposed rates, and 4.2% or \$288,200 increase in 1983 over rates proposed for 1982. The total amount of the proposed increase amounts to \$1,991,200 or a 39.0% increase spread over three years.

Summary of Decision

SoCal requests rates that are designed to earn a rate of return on rate base which will yield a 16.0% return on common equity. This decision authorizes a return on common equity of 14.35% as

recommended by the Commission staff. This return on common equity is estimated to provide times interest coverages of 2.46 in 1981, 2.39 in 1982, and 2.29 in 1983, which are sufficient to permit SoCal to meet its mortgage bond indenture requirements and issue new debt.

The rate increase authorized in the Orange County District (excluding Cowan Heights) is 14.3% for 1981, 4.2% for 1982, and 3.3% for 1983. This amounts to \$681,300 in 1981, an additional \$231,000 in 1982, and a further increase of \$146,600 in 1983.

Inasmuch as the rates for lifeline quantities have been increased more than 25% since 1976, the residential rates for the first block and the charge for a 5/8" x 3/4" meter are increased by the same percentage as for other residential rate blocks. The lifeline quantity is reduced from 500 Ccf to 300 Ccf to conform to the residential rate structure recently approved for other SoCal systems.

The staff and SoCal agreed that this decision should authorize consolidation of the Cowan Heights service area into the much larger Orange County District to become effective when an advice letter filing is approved which raises rates for Cowan Heights to rate of return level approved for the Orange County District in this proceeding. That proposal is adopted.

Public Hearing

Following public meetings held in Cypress and Placentia, a duly noticed public hearing was held before Administrative Law Judge Mallory in Los Angeles on June 29 and 30, 1981. The matter was submitted upon receipt of two late-filed exhibits on July 10, 1981. ✓

Evidence was presented on behalf of SoCal and the staff of the Commission's Revenue Requirements Division. There was no public participation at the hearings.

SoCal adopted the staff's estimates of revenue and expenses and rate base set forth in its Exhibit 11 for the purposes of this proceeding.^{1/} The only issue in dispute was the reasonable return on common equity. SoCal sought a return on common equity of 16.0%. The staff proposed a range of reasonable returns on common equity ranging from 14.0% to 14.5% and recommended that the Commission adopt a return on common equity of 14.35%, which is adopted.

Description of Orange County District

The Orange County District includes several systems which are not physically interconnected. These systems serve areas throughout Orange County including portions of the Cities of Cypress, Garden Grove, La Palma, Los Alamitos, Orange, Placentia, Santa Ana, Seal Beach, Stanton, Yorba Linda and adjacent county territory, the Cowan Ranch, and Peacock Hills and vicinity also located in Orange County.

A majority of the area is residential with small industrial and commercial areas. Of the total metered customers that are served in the Orange County District as of September 30, 1980, approximately 98% are in the commercial classification which consists of residential and business customers.

As of December 31, 1979 the Orange County District was providing metered water service to 35,081 customers and providing private flat rate fire protection service to 174 customers.

^{1/} Exhibit 11 was revised by the staff to reflect a rate base adjustment suggested by SoCal.

Reasons For Increases

SoCal estimates that at present rates its rate of return on rate base will be 7.73% based on test year 1980 estimated. SoCal believes that this rate of return is too low and that the low rate of return is mainly caused by increases in costs of purchased water and power, labor, postage, payroll taxes, liability insurance, depreciation, increased rate base, and increased costs of capital since rates were last adjusted in a general rate increase proceeding.

The staff agrees that SoCal has experienced increases in its operating costs and a decrease in its rate of return. However, the staff proposes lesser increases than those sought in the application.

Rate of Return

As indicated above, the only disputed issue is the reasonable rate of return on common equity to be authorized in this proceeding. SoCal adopted, for the purpose of this proceeding, the capital structure and cost of debt set forth in staff Exhibit 14 (witness Quan).

W. V. Caveney, SoCal's president, presented Exhibit 6 which contains SoCal's financial statistics and cost of money report. The testimony presented in connection with Exhibit 6 indicates that SoCal had a sale of common stock in August 1980 which increased the number of common shares by 39%. The company sold 550,000 shares at a price of \$12 per share, producing \$6,600,000. The then current book value per share was \$16. SoCal does not believe it can issue more common stock and further dilute the value of that stock for some time until earnings per share substantially increase. In the near term, additional debt financing is needed for expansion and to replace debt financing which has matured. Additional debt will be issued at a substantially higher cost than the cost of the

matured debt replaced by the new issue. Present earnings do not provide adequate coverages to permit issuance of new first mortgage bonds or debentures. A large increase in the return on common equity is required to provide the higher coverages that will permit issuance of new long-term debt at a reasonable cost. Until such debt coverages are achieved, SoCal will meet its new capital requirements through short-term bank loans.

Caveney estimated that a return on common equity of 16% would result in times total interest coverages of 2.51 in 1981, 2.46 in 1982, 2.38 in 1983, and 2.33 in 1984. The witness believes these times interest coverages are the minimum necessary to permit SoCal to meet its indenture requirements and to acquire long-term debt at a reasonable cost.

Edwin Quan presented Exhibit 14, the report of the Revenue Requirements Division, Rate of Return Section, concerning cost of capital and rate of return for SoCal. At the hearing, Quan developed and presented Exhibit 22, which shows the implicit after tax interest coverages for the years 1981, 1982, and 1983 based on the staff's capital structure and debt cost factors and the staff's recommended return on common equity of 14.35%. Exhibit 22 indicates that the estimated times interest coverages resulting from the staff proposals would be 2.46 in 1981, 2.39 in 1982, and 2.29 in 1983.

Quan testified that he recognized the need to provide adequate times interest coverages for the purposes stated in the testimony of Caveney and that he had given consideration to those factors in the development of the recommended return on equity. Quan testified that his recommendation may be compared with the return on common equity adopted by the Commission in Decision (D.) 92244 dated September 14, 1980 in Application (A.) 59426, which authorized a return on equity of 13.4% for the year 1980 for SoCal's Metropolitan District.

The staff witness testified that his recommended return on common equity was expressed in the form of a range in his report to recognize the fact that rate of return determinations are not matters of absolute precision and no particular methodology guarantees that number with pinpoint accuracy. The witness stated that a range of reasonableness exists when determining an appropriate return on common equity and that a return set at a point within his recommended range of 14.00% to 14.50% for common equity provides a fair and reasonable rate of return. Quan selected a specific recommended return on common equity higher than the midpoint of the range to give recognition to increased costs of money in general and to provide ample interest coverages sufficient to ensure SoCal's ability to acquire new long-term debt financing at reasonable cost.

Quan's recommended capital structure and cost of debt recognizes that debt financing in near term will be accomplished by short-term bank financing. That capital structure and related debt costs were adopted by SoCal. ✓

The returns on common equity of 16.00%, as recommended by SoCal, and 14.35%, as recommended by the staff, applied to the staff's recommended capital structure and costs of debt produce ✓
the following:

TABLE I

SOUTHERN CALIFORNIA WATER COMPANY

Recommended Rates of Return
Average Years 1981, 1982, and 1983

| Component | Capital Ratios | Cost Factors | Earnings Rate on Common Stock Equity | Weighted Cost Totals |
|---------------------|----------------|--------------|--------------------------------------|----------------------|
| | | | 14.35% | 16.00% |
| <u>1981</u> | | | | |
| Long-Term Debt | 45.00% | 7.18% | 3.23% | 3.23% |
| Bank Loans | 6.00 | 17.00 | 1.02 | 1.02 |
| Preferred Stock | 13.00 | 7.84 | 1.02 | 1.02 |
| Common Stock Equity | <u>36.00</u> | - | <u>5.17</u> | <u>5.76</u> |
| Total | 100.00% | | 10.44% | 11.03% |
| <u>1982</u> | | | | |
| Long-Term Debt | 45.00% | 8.06% | 3.63% | 3.63% |
| Bank Loans | 6.00 | 14.00 | 0.84 | 0.84 |
| Preferred Stock | 13.00 | 8.11 | 1.05 | 1.05 |
| Common Stock Equity | <u>36.00</u> | - | <u>5.17</u> | <u>5.76</u> |
| Total | 100.00% | | 10.69% | 11.28% |
| <u>1983</u> | | | | |
| Long-Term Debt | 45.00% | 9.07% | 4.08% | 4.08% |
| Bank Loans | 6.00 | 13.00 | 0.78 | 0.78 |
| Preferred Stock | 13.00 | 8.37 | 1.09 | 1.09 |
| Common Stock Equity | <u>36.00</u> | - | <u>5.17</u> | <u>5.76</u> |
| Total | 100.00% | | 11.12% | 11.71% |

We have reviewed the evidence on the issue of rate of return on common equity and find that the return of 14.35% recommended by the staff is reasonable. That return is both fair and reasonable and balances the interests of SoCal's investors and ratepayers. It gives adequate consideration for financial attrition; should provide an ample profit margin to permit SoCal to service its debt; and should provide moderate additions to retained earnings. We also believe that the staff analyses supporting this return on equity give effect to the concerns expressed by Commissioner Bryson in his concurring opinion in California American Water Company, D.93263 dated July 7, 1981 in A.60092.

We also find that the following rates of return which reflect the staff's capital structure and estimated cost of debt, and the adopted rate of return on common equity will be fair and reasonable for the periods shown:

| | |
|------|--------|
| 1981 | 10.44% |
| 1982 | 10.69% |
| 1983 | 11.12% |

The rate of return for 1982 gives effect to the financial attrition factors described in the staff report in Exhibit 14. The rate of return for 1983 gives effect to financial attrition factors described in Exhibit 14 and the operational attrition factors described in staff Exhibit 13.

Results of Operations - Present Rates

SoCal adopted the staff's estimated operating results for Orange County District (excluding Cowan Heights service area) after an adjustment in rate base concurred in by the staff. The stipulated operating results are summarized in Exhibit 10. The operating expenses in Exhibit 10 should be further adjusted to give effect to current power supply costs (an increase of \$35,000 in 1981). The adopted results of operations at present rates are as follows: ✓

TABLE 1

SOUTHERN CALIFORNIA WATER COMPANY
ORANGE COUNTY DISTRICT

Summary of Earnings at Present Rates
(Dollars in Thousands)

| | <u>1981</u> <u>Estimate</u> | <u>1982</u> <u>Estimate</u> |
|------------------------------------|--------------------------------|--------------------------------|
| Revenues | 4,774.3 | 4,849.7 |
| Operating Expenses | | |
| Purchased Water | 1,038.2 | 1,053.7 |
| Power for Pumping | 642.5 | 651.2 |
| Pump Tax | 513.0 | 520.5 |
| Uncollectibles | 12.7 | 12.9 |
| Street Franchise | 66.1 | 67.1 |
| All Other | <u>1,561.4</u> | <u>1,686.2</u> |
| Subtotal | 3,833.9 | 3,991.6 |
| Net Revenue before Income Taxes | 940.4 | 858.1 |
| Income Taxes | | |
| CCFT | 28.1 | 15.9 |
| FIT before ITC | 88.9 | 34.6 |
| ITC | (65.9) | (65.9) |
| FIT | 23.0 | 31.3 |
| Total Taxes on Income | 51.1 | (15.4) |
| Total Expenses | 3,895.0 | 3,976.2 |
| Net Revenues | 889.3 | 873.5 |
| Rate Base | 11,651.4 | 11,930.2 |
| Rate of Return | 7.63% | 7.32% |

(Red Figure)

The above table indicates that present earnings for SoCal's Orange County District are too low and should be increased.

Net-To-Gross Multiplier

The staff recommends a net-to-gross multiplier of 2.0822 for the consolidated district, based on the following percentages:

| | |
|---|--------|
| California Corporate Franchise Tax Rate | 9.6 |
| Federal Income Tax Rate | 46.0 |
| Uncollectible Rate | 0.2715 |
| Franchise Rate | 1.3477 |

Results of Operations at Rates of Return Found Reasonable - 1981 and 1982

The following table sets forth estimated operating results for SoCal's Orange County District (excluding Cowan Heights service area) at the rates of return found reasonable for the periods shown.

TABLE 2

SOUTHERN CALIFORNIA WATER COMPANY
ORANGE COUNTY DISTRICT

Summary of Earnings at Authorized Rates
(Dollars in Thousands)

| | <u>1981</u> | <u>1982</u> |
|------------------------------------|----------------|----------------|
| Revenues | 5,455.6 | 5,686.6 |
| Operating Expenses | | |
| Purchased Water | 1,038.2 | 1,053.7 |
| Power for Pumping | 642.5 | 651.2 |
| Pump Tax | 513.0 | 520.5 |
| Uncollectibles | 14.5 | 15.1 |
| Street Franchise | 75.6 | 78.7 |
| All Other | <u>1,561.4</u> | <u>1,686.2</u> |
| Subtotal | 3,845.2 | 4,005.4 |
| Net Revenue before Income Taxes | 1,610.4 | 1,681.2 |
| Income Taxes | | |
| CCFT | 92.4 | 94.9 |
| FIT before ITC | 367.5 | 376.9 |
| ITC | (65.9) | (65.9) |
| FIT | 301.6 | 311.0 |
| Total Taxes on Income | 394.0 | 405.9 |
| Total Expenses | 4,239.2 | 4,411.3 |
| Net Revenues | 1,216.4 | 1,275.3 |
| Rate Base | 11,651.4 | 11,930.2 |
| Rate of Return | 10.44% | 10.69% |

(Red Figure)

Operational and Financial
Attrition - 1983

The Commission staff, in Exhibit 13 recommended that an operational attrition rate of 0.32% plus the financial attrition rate shown in staff Exhibit 14 should be used to set rates for 1983 for the present Orange County District service area. The staff recommended that the utility should submit an advice letter with supporting work papers on or after November 15, 1982 to justify further increases in the rates for the Orange County District by using 12 months of recorded data ending September 30, 1982. The estimated revenue requirement for 1983 is based on adding the operational attrition developed in staff Exhibit 13, paragraph 16.4, of 0.32% to the financial attrition developed in staff Exhibit 14 of 0.43%. The total attrition is 0.75%.

Pump Efficiencies

This Commission has ordered water companies to check the efficiency of their pumps in order to reduce electricity usage in the face of ever-increasing electric prices, and as a means of conserving water in times of water shortages.

In this proceeding SoCal and the staff reviewed the efficiency tests made on the 37 well pumps and 11 booster pumps in the system. Staff Exhibit 11 indicates the following:

| <u>Rating</u> | <u>Well Pumps</u> | <u>Booster Pumps</u> |
|---------------|-----------------------|--------------------------|
| Low | 10 | 4 |
| Fair | 11 | 1 |
| Good | 4 | 2 |
| Excellent | <u>12</u> | <u>4</u> |
| Total | 37 | 11 |

The staff checked the low-efficiency well pumps and found that three were scheduled for modification, two were not in service, three were not scheduled for modification, and two should be retested because prior tests were incorrectly run or inconclusive. SoCal indicated that two low-efficiency booster pumps will be modified, one has been removed from service, and one is an inline booster pump which would not produce any more work if its efficiency were increased. Staff Exhibit 11 states that no adjustments were made for operating well pumps or booster pumps at low efficiencies, since modifications of the well and booster pumps not planned for modification are not cost-effective at this time. Similarly, the staff made no adjustment in electric power costs for such pumps, even though \$12,000 would be saved annually if such pumps were brought up to an "average-fair" rating (D.88466 in Case 10114).

The staff recommendation appears reasonable and will be adopted.

Conservation Efforts

SoCal's Exhibit 9 and staff Exhibit 15 deal with water conservation. The material furnished in Exhibit 9 shows the several types of information material furnished by SoCal to its customers urging them to conserve on their use of water. These include newspaper and radio advertisements, bill inserts, and water conservation materials including shower head restrictors and toilet tank bowl kits.

Sazedur Rahman, a staff engineer, reviewed SoCal's water conservation program. The following is his analysis of that program as set forth in Exhibit 15.

"The utility has an ongoing water conservation program. It provides water conservation information to customers through newspaper advertisings, customer bill stuffers and other customer literature. The information emphasizes the need for water savings by pointing out that water savings mean savings in individual's cost as well as savings in gas and electrical energy which are required to provide the water. The utility also provides information on how to save water and makes available the water saving kits to customers.

"The current utility's water conservation program includes quarterly mailing of bill inserts to customers, eight newspaper advertisements per year, and making available the water savings kit to any customer who asks for it.

"The utility plans to continue the current conservation program through the test years 1981 and 1982 and beyond.

"The staff engineer finds the utility's water conservation program satisfactory."

Public Meetings

Public meetings pertaining to the general rate increase for SoCal's Orange County District were held in the Council Chambers of the City of Cypress on April 15, 1981, at which time one customer appeared, and at the Backs Community Center in Placentia on April 16, 1981 at which time two customers appeared.

A representative of the Foothills Communities Association (Cowan Heights) expressed concern that if Cowan Heights service area is incorporated in the Orange County District, the interests of the small number of Cowan Heights customers would be lost. Another customer objected to water quality in the Placentia service area. SoCal's representatives agreed to make tests of water quality and to inform customers of the results of those tests.

Customer Service

The following is a summary of informal complaints filed with the Commission for 1980 and for the first five months of 1981.

| <u>Nature of Complaint</u> | <u>Orange County</u> | <u>Cowan Heights</u> |
|----------------------------|----------------------|----------------------|
| Leaks | 1 | - |
| High Bills | 12 | 1 |
| Water Quality | - | - |
| Pressure | - | - |
| Other | - | - |
| Totals | 13 | 1 |

The staff report in Exhibit 13 states that during the staff inspection of the utility's facilities, service provided customers was investigated and found to be satisfactory.

Consolidation

SoCal proposes to consolidate its Cowan Heights service area into its Orange County District.

Evidence in support of this request indicates the following advantages that should result.

1. Improvement In Administrative Efficiency

Consolidation will permit SoCal to eliminate separate accounting records for Cowan Heights, as those records will be consolidated with Orange County District records. Separate rate increase proceedings for Cowan Heights will not be necessary in the future.

The combining of districts also will reduce advice letter filings, saving time for both SoCal and the Commission. It will also eliminate one annual report.

2. Operational Similarities

The two service areas purchase water from member agencies of the Metropolitan Water District of Southern California and purchase electricity from Southern California Edison Company.

The combining of districts and service areas is an ongoing program of SoCal. Prior to 1968 Orange County District operated under six different tariff schedules, which were consolidated in one tariff area in D.74271 dated June 11, 1968. Consolidation of Cowan Heights service area with Orange County District will complete the consolidation program for that district.

SoCal filed an advice letter for a general rate increase in its Cowan Heights service area on July 13, 1981. This filing requests a general metered rate schedule increase for Cowan Heights to produce the same rate of return as authorized herein for the Orange County District for the years 1981, 1982, and 1983. Resolution W-2864, when approved, would grant SoCal its request.

The staff concurs in the consolidation of the Cowan Heights service area into the Orange County District.

Rate Design

SoCal did not take issue with the staff's rate design proposal. The staff recommends for Orange County District (exclusive of Cowan Heights):

1. Cancellation of flat rate Schedule OC-2C now used for service in the former Cypress Acres Water Association service area, as that area is now fully metered.
2. Continue the present two-block rate structure in Schedule OC-1 (General Metered Service) but change the first quantity consumption block from 0-500 cubic feet to 0-300 cubic feet to conform to similar SoCal rate schedules applicable in the Metropolitan and Pomona Districts.
3. As the accumulated increases in revenues authorized since January 1, 1976 have exceeded 25%, increases may be authorized for **lifeline** quantities. Therefore, the staff recommends that the rates be increased for the first quantity block and the smallest meter size (5/8" x 3/4").

4. Increases in revenue should be allocated equally between service charge and quantity component on a percentage basis of gross revenue applied to the base rate in effect at the time of the decision.
5. Service charges for the 3/4-inch, 1-inch, and 1-1/2-inch meters should be rounded to the nearest 10 cents. Meters larger than 1-1/2-inch should be rounded to the nearest dollar.

The staff recommends that the Cowan Heights service area rates be raised to achieve the same rate of return on rate base for that service area as found reasonable for the Orange County District. To assist in revising those rates, the staff devised a schedule of "equivalent" current rates for Cowan Heights which reflect a conversion from a three-block quantity rate structure to a two-block quantity rate structure.

Cowan Heights Service Area

As indicated above, the staff recommended that the consolidation of Cowan Heights service area into the Orange County District not be approved until Resolution W-2864 is approved, which will authorize the general metered rate schedule for that area be increased to provide revenues that produce a rate of return equal to that authorized for the Orange County District.

Findings of Fact

1. SoCal's water quality, conservation program, and service in its Orange County District and in its Cowan Heights service area are satisfactory.
2. SoCal is in need of additional revenues for its Orange County District, but the rates requested would produce an excessive rate of return on rate base.

3. A rate of return on common stock equity of 14.35% and overall rates of return on rate base of 10.44% for 1981, 10.69% for 1982, and 11.12% for 1983, respectively, are fair and reasonable.

4. The staff's estimates of consumption, rate base (as revised), and operating expenses reasonably indicate the results of SoCal's Orange County District operations for the years 1981 and 1982 and should be adopted.

5. The rates of return found reasonable when applied to the adopted results of operations and rate base require an increase in annual revenues of \$681,300 or 14.3% for 1981, a further increase of \$231,000 or 4.2% for 1982, and a further increase of \$186,400 or 3.3% for 1983 providing a three-year cumulative increase of \$1,098,700 or 23%. The step increase for 1983 should be adjusted so that the authorized 11.12% rate of return will not be exceeded for the 12 months ended September 30, 1982.

6. The operating revenues and expenses, income taxes, and rate base for SoCal's Orange County District adopted for the purposes of this proceeding are set forth in Appendix C.

7. The staff's rate design proposals are reasonable.

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

9. The consolidation of the Cowan Heights service area into the Orange County District should be cost-effective in that SoCal will incur less regulatory and accounting expenses and less operating costs as a result of that consolidation. When the Cowan Heights rates for general metered service has been increased to produce the same rate of return on rate base for 1981 as authorized for the Orange County District, the consolidation proposed by SoCal should result generally in reasonable rates and charges and should be authorized.

Conclusions of Law

1. The adopted rates set forth in Appendixes A and B are just, reasonable, and nondiscriminatory.
2. The application should be granted to the extent provided by the following order.
3. Because of the immediate need for additional revenues, the effective date of the following order should be the date of signature.

INTERIM ORDER

IT IS ORDERED that:

1. After the effective date of this order, Southern California Water Company (SoCal) is authorized to:
 - a. Consolidate its Cowan Heights service area into its Orange County District.
 - b. File for its Orange County District, the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 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 of this order.

2. On or after November 15, 1981 SoCal is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix A or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix A in the event that the Orange County District 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, 1981, exceeds the lower of (a) the rate of return found reasonable by the Commission for SoCal during the corresponding period in the then most recent rate decision or (b) 10.49%. Such filing shall comply with General Order 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 30 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.

3. On or after November 15, 1982 SoCal 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 Orange County District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for SoCal during the corresponding period in the then most recent rate decision or (b) 10.69%. Such filing shall comply with General Order 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, 1983, or 30 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.

This order is effective today.

Dated AUG 18 1981, at San Francisco, California.

4. The Commission is reviewing the Economic Recovery Tax Bill of 1981 (Bill) signed into law by the President on August 13, 1981. This order is an interim order pending an investigation by the Commission as how the Bill affects federal income taxes for the adopted test year results of operations.

John E. Bryan
President
Richard D. [unclear]
Samuel [unclear]
Walter [unclear]
Pauline C. Green
Commissioners

APPENDIX A
Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

Schedule No. OC-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Cypress, La Palma, Los Alamitos, Placentia, Santa Ana, Seal Beach, Stanton and Yorba Linda and vicinity, Orange County.

RATES

| | <u>Per Meter</u> | |
|--|------------------|--------|
| | <u>Per Month</u> | |
| Quantity Rates: | | |
| First 300 cubic feet, per 100 cubic feet | \$ 0.292 | (I)(C) |
| Over 300 cubic feet, per 100 cubic feet | 0.376 | (I)(C) |
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 2.75 | (I) |
| For 3/4-inch meter | 4.50 | |
| For 1-inch meter | 7.00 | |
| For 1 1/2-inch meter | 10.00 | |
| For 2-inch meter | 17.00 | |
| For 3-inch meter | 20.00 | |
| For 4-inch meter | 45.00 | |
| For 6-inch meter | 67.00 | |
| For 8-inch meter | 112.00 | |
| For 10-inch meter | 162.00 | (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.

APPENDIX A
Page 2

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

Schedule No. OC-3M

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to irrigation service furnished on a metered basis to territory in this schedule.

TERRITORY

The incorporated City of Placentia.

RATES

| | <u>Per Meter</u> <u>Per Month</u> | |
|---|--------------------------------------|-----|
| Quantity Rates: | | |
| For all water delivered, per 100 cubic feet | \$ 0.310 | (I) |
| Annual Service Charge: | | |
| For 2-inch meter or smaller | \$ 91.20 | |
| For 3-inch meter | 109.20 | |
| For 4-inch meter | 243.60 | |
| For 6-inch meter | 365.40 | |
| For 8-inch meter | 609.00 | |

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

(Continued)

APPENDIX A
Page 3

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

Schedule No. OC-3M

METERED IRRIGATION SERVICE
(Continued)

SPECIAL CONDITIONS

1. The Company shall not be required to install new mains to make this service available.
2. The annual service charge will be paid in advance and bills will be computed and rendered monthly based on the total quantity of water delivered.
3. The customer, when requiring irrigation water, shall notify the Company at least twenty-four (24) hours in advance, indicating the date and hour for commencement of such service.
4. No customer shall be eligible for service under this schedule unless irrigating five (5) or more acres of land for citrus or other commercial crops.
5. Service under this schedule is subordinate to all other service schedules offered in this tariff area and is subject to interruption in emergencies or at the Company's discretion. The Company will not be liable for damage occasioned by interruption of service supplied under this schedule.
6. The customer will pay, without refund, the actual cost of the irrigation service. The Company will furnish the meter at its expense.

APPENDIX A
Page 4

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-Willand, Gowan Heights, Los Osos, Metropolitan, Ojai, Orange County, Pomona Valley, San Bernardino Valley, San Dimas, San Gabriel Valley, Santa Maria, Clearlake and Wrightwood Districts. (D)

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 protecting against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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

APPENDIX B
Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. OC-1

GENERAL METERED SERVICE

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would be in effect on that date.

| | <u>Rates to be Effective</u> | |
|---------------------------------------|------------------------------|---------------|
| | <u>1-1-82</u> | <u>1-1-83</u> |
| Quantity Rates: | | |
| First 300 cu.ft., per 100 cu.ft. | \$ 0.009 | \$ 0.009 |
| Over 300 cu.ft., per 100 cu.ft. | 0.010 | 0.013 |
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 0.08 | \$ 0.08 |
| For 3/4-inch meter | 0.10 | 0.20 |
| For 1-inch meter | 0.20 | 0.20 |
| For 1 1/2-inch meter | 0.30 | 0.30 |
| For 2-inch meter | --- | 1.00 |
| For 3-inch meter | 1.00 | 1.00 |
| For 4-inch meter | 1.00 | 2.00 |
| For 6-inch meter | 2.00 | 2.00 |
| For 8-inch meter | 3.00 | 4.00 |
| For 10-inch meter | 4.00 | 6.00 |

APPENDIX B
Page 2

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. OC-3M

METERED IRRIGATION SERVICE

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would be in effect on that date.

| | <u>Rates to be Effective</u> | |
|--|------------------------------|---------------|
| | <u>1-1-82</u> | <u>1-1-83</u> |
| Quantity Rates: | | |
| For all water delivered, per 100 cu.ft. | \$0.008 | \$0.010 |

(END OF APPENDIX B)

APPENDIX C

Page 1

SOUTHERN CALIFORNIA WATER COMPANY
 Orange County District
 Orange County Service Area

ADOPTED QUANTITIES

Net-to-Gross Multiplier: 2.0830

Federal Tax Rate: 46%

State Tax Rate: 9.6%

Local Franchise Tax Rate: 1.388%

Uncollectibles Rate: 0.266%

| | <u>Test Year</u> | |
|-----------------------------------|------------------|------------|
| | 1981 | 1982 |
| <u>1. Purchased Power</u> | | |
| <u>Well Water</u> | | |
| SCE Schedule | | |
| Ccf | 7,221,300 | 7,330,900 |
| kWh/Ccf, | 1.2 | 1.2 |
| Total energy, kWh | 8,665,560 | 8,797,080 |
| City of Anaheim Schedule | | |
| Ccf | 227,300 | 227,300 |
| kWh/Ccf | 1.5523 | 1.5523 |
| Total energy, kWh | 352,838 | 352,838 |
| <u>Boosted Water</u> | | |
| SCE Schedule | | |
| Ccf | 11,440,000 | 11,608,400 |
| kWh/Ccf | 0.1049 | 0.1049 |
| Total energy | 1,200,056 | 1,217,721 |
| SoCal Gas | | |
| Total Therms | 24,872 | 24,872 |
| <u>Electric:</u> | | |
| <u>Southern Calif. Edison Co.</u> | | |
| Total cost | \$579,800 | \$588,000 |
| Total kWh | 9,865,616 | 10,014,801 |
| Effective Schedule Date | 8/28/80 | 8/28/80 |
| \$/kWh Used (variable cost) | 0.05453 | 0.05453 |
| Service charge | \$ 41,843 | \$ 41,843 |

APPENDIX C

Page 2

SOUTHERN CALIFORNIA WATER COMPANY
 Orange County District
 Orange County Service Area

ADOPTED QUANTITIES

| | <u>1981</u> | <u>1982</u> |
|-----------------------------|-------------|-------------|
| <u>City of Anaheim</u> | | |
| Total Cost | \$ 18,800 | \$ 18,800 |
| Total kWh | 352,838 | 352,838 |
| Effective Schedule Date | 7/1/80 | 7/1/80 |
| \$/kWh Used (variable cost) | 0.05069 | 0.05069 |
| Service Charge | \$ 936 | \$ 936 |
| | | |
| Gas: | | |
| Southern Calif. Gas Co. | | |
| Total Cost | \$ 8,900 | \$ 8,900 |
| Total Therms | 24,872 | 24,872 |
| \$/Therm (variable cost) | 0.35513 | 0.35513 |
| Service Charge | \$ 60 | \$ 60 |
| Effective Schedule Date | 9/1/80 | 9/1/80 |
| | | |
| Total Power Cost | \$ 607,500 | \$ 615,700 |

APPENDIX C

Page 3

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service AreaADOPTED QUANTITIES

| | <u>1981</u> | <u>1982</u> |
|--|------------------------------|------------------------------|
| 2. <u>Purchased Water</u> | | |
| Sources: | | |
| Orange County Water Dist. OC-52 | 700 AF @ \$90/AF | 700 AF @ \$90/AF |
| All other Orange County Water Dist. | 8401.2 @ \$115/AF | 8536.2 A.F. @ \$115/AF |
| City of Santa Ana | 1500 Ccf @ \$0.24/Ccf | 1500 Ccf @ \$0.24/Ccf |
| City of Seal Beach | 25,400 Ccf @ \$0.3412/Ccf | 25,400 Ccf @ \$0.3412/Ccf |
| Total Purchased Water Cost | \$1,038,200 | \$1,053,700 |
| 3. Pump Tax | \$ 513,000 | \$ 520,500 |

APPENDIX C

Page 4

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area.

ADOPTED QUANTITIES4. Payroll and Employee Benefits:

| | <u>Test Year:</u> | |
|-------------------|-------------------|---------------|
| | <u>1981</u> | <u>1982</u> |
| OGM Payroll | \$ 418,100 | \$ 476,100 |
| A&G Payroll | 15,200 | 17,300 |
| Pension & Benefit | <u>44,200</u> | <u>47,300</u> |
| Total | 477,500 | 540,700 |
| Payroll Taxes | \$ 32,600 | \$ 37,200 |

5. Ad Valorem Taxes:

| | <u>1981</u> | <u>1982</u> |
|--------------------|----------------|----------------|
| Ad Valorem Taxes - | \$ 150,400 | \$ 154,100 |
| | <u>1981-82</u> | <u>1982-83</u> |
| Tax Rate - | 0.69% | 0.69% |
| Market Value - | \$ 22,189,200 | \$ 22,937,900 |

Metered Water Sales Used to Design Rates:

| <u>General Metered Range - Ccf</u> | <u>Usage-Ccf</u> | |
|--|------------------|------------------|
| | <u>1981</u> | <u>1982</u> |
| Block 1 0-3 | 1,267,329 | 1,287,821 |
| Block 2 > 3 | <u>9,158,457</u> | <u>9,294,391</u> |
| General Metered Usage | 10,425,786 | 10,582,212 |
| Metered Irrigation | <u>61,958</u> | <u>61,958</u> |
| Total Metered Usage, Ccf | 10,487,744 | 10,644,170 |

APPENDIX C

Page 5

SOUTHERN CALIFORNIA WATER COMPANY
 Orange County District
 Orange County Service Area

ADOPTED QUANTITIESCustomers & Usage

| | <u>No.</u> | | <u>Usage-KCcf</u> | | <u>Avg. Usage-Ccf/Yr.</u> | |
|----------------------------|-------------|-------------|-------------------|-------------|---------------------------|-------------|
| | <u>1981</u> | <u>1982</u> | <u>1981</u> | <u>1982</u> | <u>1981</u> | <u>1982</u> |
| Commercial | | | | | | |
| Metered - | 34122 | 34677 | 9,617.3 | 9,773.7 | 281.9 | 281.9 |
| Industrial Metered | 29 | 29 | 42.4 | 42.4 | 1461.6 | 1461.6 |
| Pub. Authority Metered | 264 | 264 | 716.4 | 716.4 | 2713.6 | 2713.6 |
| Irrigation Metered | 13 | 13 | 62.0 | 62.0 | | |
| Other Metered | 7 | 7 | 49.7 | 49.7 | | |
| Subtotal | 34435 | 34990 | 10,487.8 | 10,644.2 | | |
| Private Fire Protection | 198 | 216 | | | | |
| Total | 34633 | 35206 | | | | |
| Unaccounted for Water | | | 952.2 | 964.2 | | |
| In % | | | 8.32% | 8.31% | | |
| Total Water Supply | | | 11,440.0 | 11,608.4 | | |

APPENDIX C
Page 6

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

ADOPTED TAX CALCULATIONS

| Item | 1981 | | 1982 | |
|--------------------------------|-----------------------|------------|---------------|------------|
| | Adopted Rates | | Adopted Rates | |
| | CCFT (A) | FIT (B) | CCFT (C) | FIT (D) |
| | (Thousand of Dollars) | | | |
| Operating Revenues | 5455.6 | 5455.6 | 5626.6 | 5626.6 |
| O&M Expenses | 3271.7 | 3271.1 | 3412.8 | 3412.8 |
| Taxes Other than Income | 183.0 | 183.0 | 191.3 | 191.3 |
| CCFT | 0.0 | 92.4 | 0.0 | 94.9 |
| Subtotal | 3454.1 | 3546.5 | 3604.1 | 3699.0 |
| Deductions from Taxable Income | | | | |
| Tax Depreciation | 554.1 | 619.3 | 572.5 | 639.9 |
| Interest | 484.0 | 494.0 | 521.6 | 521.6 |
| Preferred Stock Div. Credit | 0.0 | 1.2 | 0.0 | 1.2 |
| Subtotal Deductions | 1038.1 | 1104.5 | 1094.1 | 1162.7 |
| Net Taxable Income for CCFT | 963.4 | | 988.4 | |
| CCFT | 92.4 | | 94.9 | |
| Total CCFT | 92.4 | | 94.9 | |
| Net Taxable Income for FIT | | 804.6 | | 824.9 |
| Federal Income Tax | | 370.0 | | 379.4 |
| Graduated Tax Adjustment | | -2.5 | | -2.5 |
| Fed. Income Tax Before Adj. | | 367.5 | | 376.9 |
| Investment Tax Credit | | -65.9 | | -65.9 |
| Total FIT | | 301.6 | | 311.0 |

(END OF APPENDIX C)