

ORIGINAL

Decision 93539 September 15, 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of SOUTHWEST SUBURBAN WATER, a )  
corporation, for an order author- )  
izing it to increase rates )  
charged for water service in )  
the La Mirada District. )  
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Application 60295  
(Filed February 25, 1981)

A. Crawford Greene, Attorney at Law, for applicant.  
Richard Rosenberg, Attorney at Law, for the  
Commission staff.

INTERIM OPINION

Applicant, Southwest Suburban Water (Southwest), a California corporation, seeks authority to increase the rates charged for water service in its La Mirada District. Southwest proposes to increase rates in steps which are designed to increase annual revenues in test year 1981 by \$697,300, or approximately 28.1%, over the revenues produced by rates in effect at the time this application was filed, and by additional amounts of \$139,100, or 5.6%, and \$220,000, or 8.8%, in 1982 and 1983, respectively.

Southwest furnishes public utility water service to approximately 61,500 general metered customers in its two districts in the Counties of Los Angeles and Orange. The La Mirada District, to which this application is addressed, includes approximately 12,700 customers in the City of La Mirada and adjacent unincorporated areas in Los Angeles and Orange Counties. The San Jose-Whittier District

includes approximately 48,800 customers in areas in or adjacent to the Cities of Covina, West Covina, La Habra, La Puente, Industry, Glendora, Santa Fe Springs, Whittier, and adjacent unincorporated areas in Los Angeles County.

Under the regulatory procedure plan, an informal public meeting was held on May 7, 1981 at 7:30 p.m. in the La Virada City Hall Council Chambers to discuss this application. Southwest notified each customer of the meeting, which was sponsored jointly by Southwest and Commission staff representatives, by a notice included with each customer's bill commencing March 18, 1981. Five customers attended the meeting. Items of concern, from the questions asked, related to a faulty meter, a water odor problem and whether district water was used for irrigation, whether ratepayers were being overcharged to support a new fleet of company trucks, whether or not recycled water was used in the district, and why proposed increases were mostly in the service charges.

After due notice, a formal public hearing on this application was held before Administrative Law Judge William A. Turkish in Los Angeles on July 7 and 8, 1981. None of Southwest's customers attended the hearing. Southwest presented testimony and exhibits through three of its vice presidents and its manager of budgeting. Staff studies were presented by a financial examiner and three utilities engineers. The matter was submitted subject to the filing of transcript in the matter. Staff was permitted to file a late-filed exhibit if the Commission adopts any decision affecting power rates of Southwest prior to July 31, 1981. No late-filed exhibit was filed, and the matter now stands submitted for decision.

Present and Proposed Rates

For the La Mirada District, the last general rate increase was authorized on August 22, 1978, by Decision (D.) 89249 (Application (A.) 57025). Rates of return of 10.00% on rate base and 10.80% on common equity for the test years 1978 and 1979 were found reasonable for both test years. In the La Mirada District general metered service is provided under district Schedule LM-1. In addition, service is provided in this district under the following companywide schedules: Schedule 4, Private Fire Protection Service; Schedule 4A, Fire Hydrant Service on Private Property; Schedule 9-CF, Construction and Tank Truck Service; and Schedule 9-CF2, Service to Tract Houses During Construction.

Southwest proposes increasing the La Mirada District general metered service rates as well as the private fire protection service and fire hydrant service on private property service charge rates only. Quantity rates are not affected by the proposed increase in rates.

The following tabulation sets forth the present and proposed rates for general metered service.

La Mirada Tariff Area  
Schedule LM-1

General Metered Service

Service Charges:	Present* Rates	Per Meter Per Month Applicant Proposed Rates**		
		1981	1982	1983
For 5/8 x 3/4-inch meter .....	\$ 4.70	\$ 8.40	\$ 8.53	\$ 9.38
For 3/4-inch meter .....	6.40	10.65	11.42	12.64
For 1-inch meter .....	8.70	14.50	15.55	17.16
For 1-1/2-inch meter .....	11.60	19.38	20.71	22.91
For 2-inch meter .....	15.50	25.82	27.65	30.50
For 3-inch meter .....	29.00	48.48	51.89	57.20
For 4-inch meter .....	40.00	67.85	71.43	79.76
For 6-inch meter .....	66.00	108.33	112.50	129.17
For 8-inch meter .....	105.00	178.50	185.37	212.83

Quantity Rates:\*\*\*

For all water delivered, per 100 cu.ft.

First 300 cu.ft. per month .....	\$ 0.295	\$ 0.295	\$ 0.295	\$ 0.295
Over 300 cu.ft. per month .....	0.380	0.380	0.380	0.380

\*\*\*From Tariff Sheet 563-W, effective February 18, 1981.

\*\*\*From Exhibit 1.

\*\*\*From Exhibit 2.

The present service charge rates set forth above are subject to a fire protection surcharge as set forth below.

	Per Meter Per Month
For 5/8 x 3/4-inch meter	\$0.16
For 3/4-inch meter	0.21
For 1-inch meter	0.29
For 1-1/2-inch meter	0.39
For 2-inch meter	0.52
For 3-inch meter	0.96
For 4-inch meter	1.33
For 6-inch meter	2.20
For 8-inch meter	3.18

Need For Rate Relief

In its application Southwest states that the principal factors behind this application are: increased operation and maintenance expenses not recoverable by offset proceedings; continued reduction of water consumption by existing customers; and increases in cost of money and in rate of return requirements.

Customer Service and Conservation

Staff investigation relating to this application shows that during 1980 and 1981 (January-March) complaints filed at the district office concerned high bills, leaks, low pressure, and water odor, taste, and color. Staff is satisfied that all complaints have been investigated and resolved satisfactorily by Southwest.

In the past, the La Mirada District has experienced water losses as high as 17%. It declined to 13% for the 1979 test year. In D.89249 dated August 22, 1978 we ordered Southwest to continue its efforts to reduce the level of unaccounted-for water and Southwest has since adopted the following conservation-related corporate goals:

1. To reduce unaccounted-for water to a level of 7% by 1985 (currently about 10.2%).
2. To reduce the unit consumption of energy used in delivering water from 1979 to 1985 by 10%.

In an effort to meet these goals, Southwest has undertaken the following programs:

1. Leak detection in services began in 1978 on a continuous basis.
2. Test and, if necessary, replace or repair all large meters (meters two inches or greater) - started in 1979 on a continuous basis.

3. Replace all small meters which are 20 years or older - started in 1980, continuing through 1985.
4. Telemetering (a) water storage levels, (b) critical system pressure points, and (c) pump automation - started in 1980, to be completed by 1985.
5. Increase pump station efficiencies - continuous program.

Southwest intends to continue to convey its water conservation message on bill inserts to customers. In addition, Southwest has distributed free water conservation kits to its customers and is cooperating with customers in efforts to locate leaks. Staff has reviewed Southwest's programs and found them to be reasonable. In the San Jose-Whittier District proceeding,<sup>1/</sup> staff analysis indicated that Southwest's conservation programs will be cost-effective when compared to the long-term savings in water and energy. Staff recommends that Southwest, as part of the filing for the next general rate increase, be required to show the cost-effectiveness of the conservation programs discussed above.

#### Discussion

During hearing Southwest accepted staff's estimates and recommendations on all the issues related to its rate increase request except: (1) rate of return; (2) rate structure; and (3) domestic use per customer. The difference in projection of domestic use per customer, whereby staff's projection for the test years shows a constant amount while Southwest's estimate shows a declining estimate for the years, was resolved during the hearing by Southwest's acceptance of staff's revised estimate of 212.1 Ccf (hundreds of cubic feet) as the normalized use per customer during the test

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<sup>1/</sup> A.59745 dated June 17, 1980.

years. While disagreeing with some individual minor items relating to expenses contained in staff's report on results of operations, Southwest accepted staff's overall operating expenses which were based on later information and recorded data than Southwest's.

Rate of Return

The following Table 1 compares the rate of return requested by Southwest and that recommended by staff.

According to the application, the cost of capital and return on equity at the required return of 16% on equity due to financial attrition will require a higher return on total capital in successive future years in order to maintain the required return on equity of 16%. This financial attrition, according to the application, is caused by the retirement of debt through the operation of sinking funds and the issuance of new debt, the conversion of debentures to common stock, and the increase in equity over the years.

Table 1

Proposed Rate of Return  
SOUTHWEST SUBURBAN WATER

Component	Capitalization : Ratios <sup>1/</sup> : (a)	Cost : (b)	Weighted : Cost : (c)
<b>Year-End 1981</b>			
Long-Term Debt	46.11%	10.06%	4.64%
Preferred Stock	3.22	5.57	.18
Common Equity	50.66	16.00	8.11
Total	<u>100.00%</u>		<u>12.93%</u>
<b>Year-End 1982</b>			
Long-Term Debt	46.11%	10.40%	4.80%
Preferred Stock	3.22	5.34	.17
Common Equity	50.66	16.00	8.11
Total	<u>100.00%</u>		<u>13.08%</u>
<b>Year-End 1983</b>			
Long-Term Debt	46.11%	10.66%	4.92%
Preferred Stock	3.22	5.34	.17
Common Equity	50.66	16.00	8.11
Total	<u>100.00%</u>		<u>13.20%</u>
<u>Commission Staff</u>			
<b>Average Year 1981</b>			
Long-Term Debt	48.25%	9.87%	4.76%
Preferred Stock	3.25	5.43 <sup>2/</sup>	.18
Common Equity	48.50	13.75 <sup>2/</sup>	6.67
Total	<u>100.00%</u>		<u>11.61%</u>
<b>Average Year 1982</b>			
Long-Term Debt	48.25%	10.05%	4.85%
Preferred Stock	3.25	5.30 <sup>2/</sup>	.17
Common Equity	48.50	13.75 <sup>2/</sup>	6.67
Total	<u>100.00%</u>		<u>11.69%</u>
<b>Average Year 1983</b>			
Long-Term Debt	48.25%	10.37%	5.00%
Preferred Stock	3.25	5.30	.17
Common Equity	48.50	13.75	6.67
Total	<u>100.00%</u>		<u>11.84%</u>

1/ From Exhibit 1.

2/ Midpoint of staff's recommendation.



In support of its requested 16% return on equity, Southwest presented testimony by Dale Seffer, Southwest's vice president of finance. Seffer's testimony was supplemented by Exhibit 6. Exhibit 6 contains Southwest's consolidated financial requirements for the 1981, 1982, and 1983 test years comparing Southwest's source of funds and its financial requirements at 16%, 13.5%, and 10% on equity realized, a table showing Southwest's realized rate of return for the years 1977-1980 compared to that authorized by the Commission, and a table showing alternate rates of return on equity at 14%, 15%, and 16%.

A summary of Seffer's testimony in support of Southwest's rate of return on equity of 16%, during which he referred to and explained Exhibit 6, is essentially as follows:

1. Exhibit 6 basically shows the source and application of funds estimated by Southwest as required during the test years. It is an effort on Southwest's part to reflect the various rates of return on equity as to how they affect the cash necessary for Southwest to meet its responsibilities.
2. Page 1 of Exhibit 6, based on the assumption that Southwest would realize 16% return on equity, shows that Southwest will have approximately \$2.3 million net available cash dollars for each of the test years which will match Southwest's financial requirements during the same period.

3. Southwest's capital budget additions of approximately \$1.0 million per year during the test period contain nothing for construction or expansion since the area which it serves is saturated for the most part and its capital budget is primarily for line replacements due to normal wear and tear and for replacement of inefficient motors and pumps. The remainder of the \$2.3 million is to be used for main extension refund contracts, sinking funds as required by Southwest's first mortgage indenture, repurchase of Southwest's preferred stock, and working funds.
4. With respect to Southwest's "sinking fund", early in the 1970s the company was able to offset its 3% required sinking fund by any plant additions. However, in the latter part of the 70s and coming into the 1990s, Southwest is finding that lending institutions have increased the sinking fund requirement from 3% to 5% and no longer permit any offset on capital additions. This is reflected on page 1 of Exhibit 6 which shows that the most recent debt issue "sinker" starts in test year 1983 with the sinking fund requirement jumping from \$355,000 in 1981 and 1982 to \$530,000.
5. If Southwest were to realize a 16% return on equity to meet its obligations, its customers would actually be paying today's true cost of water and Southwest would not require any external financing.
6. Page 2 of Exhibit 6 shows the cash effect, based on staff's recommendations of a 13.5% realized rate of return on equity. It shows Southwest's net profit will be less and that it would end up with a cash deficit of approximately \$2.0 million over the three-year test period. This means that Southwest will have to borrow this amount to meet its commitments. It also illustrates that the company will be forced to

mortgage the future to pay for today's needs. On a per-customer basis, the difference between a 16% realized rate of return and a 13.5% realized return on equity is very minor and amounts to only 3 cents per day per customer. These 3 cents per day, however, are very important to Southwest since they will enable it to provide adequate service and preserve its financial integrity.

7. Southwest's experience from 1977 through 1980 shows that it has only been able to earn between 75% and 80% of the Commission's authorized rate of return despite its conscientious efforts, because of inflation, an unrealistic water use per customer in past rate cases, which have also affected Southwest's ability to collect the full amounts intended to offset power increases, plus its increased long-term debt and higher interest rates which were not included in prior rate cases. Since the four years were the highest profitable years of the company, the percentage of realization for the preceding five or six years was substantially less than the 75% to 80% realized during the most recent four years.
8. Assuming a 13.5% return on equity was authorized and Southwest realizes 75% to 80% based on its historical information, the resulting 10% return realized will cause it to achieve even lower profits and realize yet another \$1.0 million of cash shortage. Thus, the full capital budget additions for normal wear and tear will have to be financed with outside funds. This would also place into jeopardy Southwest's interest coverage which is required to be two times earnings.

9. Attention is directed to staff's Exhibit 8, Table 2, where it is indicated that in 1982 \$1.0 million of financing is estimated with an annual charge of \$140,000, or 14%, while in 1983 \$2 million financing at \$270,000 at 13.5% is estimated. Thus, staff is recommending essentially the same percentage for debt as it is for equity, and debt is certainly less risky than equity.
10. In considering the rate of return on common equity, the Commission should give consideration to the following past and continuing efforts of Southwest: its excellent record of service as evidenced by the lack of service complaints; its goals to substantially reduce power costs, water costs, and even miles driven; its enthusiastic support of conservation in spite of the result of lower earnings; its cost-consciousness; its implementation of extensive employee training, motivation classes, and cost-control procedures; its management by objectives goals; and its reduction of staff in the past six years by 30.

Upon cross-examination the witness stated his belief that in addition to considering the financial needs of a company when determining a rate of return, consideration should also be given to overall management efficiency and marketplace considerations. He acknowledged that Southwest was not planning any equity offerings during the test periods but that nonetheless a higher rate of return should be granted to establish a record, since investors look to a company's history rather than any single year out of context. In the witness's opinion, it is illogical that Southwest has been forced to go out and borrow money for 20 years at high rates to pay for things that should be paid for on a pay-as-you-go basis.

The witness also acknowledged that Southwest has \$1,776,244 in retained earnings in a certificate of deposit which represents the remaining proceeds from its last borrowings which, although available now for internal financing purposes, will be consumed by 1982-1983, and that the company will need yet another \$2.0 million. He also acknowledged that the 1.7 interest coverage shown in staff's Table 8 of Exhibit 8 was an after-tax coverage which would indicate that the actual before-tax coverage was considerably higher. He also acknowledged that if Southwest earned a full 13.5% return on equity, it would exceed the times interest coverage requirements of its indenture.

Staff's evidence on cost of capital and rate of return was introduced through the testimony and report of Edwin Quan. His testimony and report are summarized as follows:

1. Staff believes a reasonable rate of return is within the range of 11.49% and 11.73% for test year 1981. This equates to an earnings allowance range of 13.50% to 14.00% on common equity. The rate of return should be adjusted in 1982 and 1983 to recognize the impact of financial attrition and still allow Southwest the opportunity to earn between 13.50% to 14.00% on common equity throughout the test period. Corresponding rates of return on rate base are 11.57% to 11.81% for 1981 and 11.72% to 11.96% for 1983.
2. Staff's recommendation is based on an estimate of Southwest's average capital structure for the test period which is derived from an analysis of the beginning and end of year capital structures for 1981, 1982, and 1983. The related cost rates for the respective components of the capital structure are based on an average of the estimated beginning and end of year rates for each year.

3. The differences between staff's projected capital structure and related costs and those of Southwest result from staff's use of more recent information and different assumptions related to the estimated additions to retained earnings for 1981, 1982, and 1983. The differences in the cost factors of the capital structure result from differences in the estimated costs associated with future debt issues and staff's use of average-year costs, whereas Southwest has used year-end costs.
4. The use of an average capital structure and related average cost is consistent with the recognition of financial attrition in that it more accurately reflects Southwest's actual capital costs during the years than does a year-end structure and related year-end capital costs. Prior to the Commission policy of setting rates so that major water utilities could go at least three years without general rate relief, rate of return recommendations were based on capital ratios and capital costs developed for the end of the test year. This approach was used in the recognition that rates would remain in effect for some period beyond the test year. However, with rate increases now being filed on a three-year cycle, rates remain in effect only during that three-year period. The use of an average capital structure and related average-year capital costs is the most accurate method to recognize the capital costs associated with the period rates are in effect.

5. In addition to the consideration given to Southwest's average capital structure and average capital costs, staff also considered Southwest's forecasted financing needs for 1981 through 1983; its ability to attract capital; and its past earnings performance and financial history in arriving at the recommended rate of return.
6. Staff was further guided in the rate of return on equity recommendation by the following standards developed in prior Commission and judicial proceedings:
  - a. The return to the equity holders should be commensurate with returns on investments in other enterprises having similar risks.
  - b. The return should be sufficient to enable the utility to attract capital at reasonable rates and to ensure confidence in the utility's financial integrity.
  - c. The return should balance the interests of both the investors and ratepayers.
7. Data relating to Southwest's common stock book value, dividends, and earnings for the years 1975 through 1980, show book value increased approximately \$2.8 million and earnings available for common totaled approximately \$3.8 million of which \$1.1 million was paid out in dividends. Earnings per share show increases for all years except 1977, and the annual dividends per share show steady yearly increases.

8. The purpose for the rate of return range in this proceeding is to recognize the fact that rate of return recommendations are not measures of precise accuracy since there is no scientific method to making such determination. For this reason the midpoint within the 13.50% to 14.00% range at 13.75%, which translates into a rate of return of 11.61% for 1981, 11.69% for 1982, and 11.84% for 1983, is considered reasonable.
9. Consideration was given to the question of earning volatility but no specific adjustment was made to increase the return on equity because of the volatility problem since it is already considered within the range recommended in this proceeding. Even though the cost of current debt during the test years is estimated to be 14% for short-term debt and 13.5% for long-term debt, equity is a more risky investment, and one cannot just look at the different classes of investment or forms of financing that a company does without looking into its capital requirements. Looking at the three-year projected capital requirements for Southwest and its anticipated sources of financing for these particular capital requirements, Southwest's present position does not translate into large volumes of external financing similar to other California utilities since most of Southwest's capital requirements can be handled through internal financing with perhaps only 10% to 20% of its capital requirements derived through external financing.

#### Discussion

Rate of return is an expression of the capital costs of a utility - the cost of debt, preferred stock, and common equity. Although some assumption must be made regarding debt and preferred stock costs associated with future years, the determination of these costs is relatively straightforward, while the cost of common equity is the area least susceptible to accurate calculation and



most susceptible to controversial differences of opinion. The cost of common equity is determined after an analysis of the risk, both business and financial, associated with a particular utility and, as such, is based largely on informed judgment.

In support of its request for a 16% return on equity, Southwest's witness Seffer focused primarily on various rates of return on equity (Exhibit 6) and how they will affect the cash flow of Southwest during the test year and on various programs Southwest has undertaken which the Commission has cited in past decisions to justify higher rates of return. In addition, emphasis is placed particularly on the dissenting opinion of the Commission's president in San Jose Water Works, D.92719 (February 18, 1981). That dissent critically examines staff's methodology for determining rate of return, during current unstable market conditions, because they are not responsive to fluctuating changes that increase the cost of capital to utilities.

While staff's methodology may have been criticized in that dissenting opinion, we have not been presented with sufficient evidence or contrasting methodology supporting the adoption of a rate of return of 16% on common equity as requested by Southwest. Southwest's support for a 16% return on equity is not based on any detailed analysis as was provided by staff in support of its recommendation. Nor does Southwest's Exhibit 6 reflect the \$1.77 million in retained earnings which can be used in lieu of the external financing contemplated by Southwest during the test period.

There is no doubt that Southwest is in need of an increase in its return on equity. It provides a good level of service to its customers and has active conservation and cost-conscious programs. We are also aware that significant changes in the capital markets have substantially increased the cost of capital for utilities in recent years and that our recent decisions on rate of return may not have adequately reflected market conditions. For these reasons we deem it reasonable to authorize a rate of return on common equity of 14.00% which is at the top of staff's recommended range. This will provide a balancing of the consumer interest with the benefits accruing to Southwest's investors, allow for the servicing of Southwest's fixed charges, and provide it with sufficient earnings to meet its indenture requirements and financing needs over the test period.

Based on the record in this proceeding, we find a return on common equity of 14.00% is reasonable to yield rates of return of 11.73%, 11.81%, and 11.96% for test years 1981, 1982, and 1983, respectively, developed as follows:

Table 2  
Adopted Rate of Return  
 SOUTHWEST SUBURBAN WATER

Component	Capitalization Ratios	Cost	Weighted Cost
Average Year 1981			
Long-Term Debt	48.25%	9.87%	4.76%
Preferred Stock	3.25	5.43	.18
Common Equity	48.50	14.00	6.79
Total	<u>100.00%</u>		<u>11.73%</u>
Average Year 1982			
Long-Term Debt	48.25%	10.05%	4.85%
Preferred Stock	3.25	5.30	.17
Common Equity	48.50	14.00	6.79
Total	<u>100.00%</u>		<u>11.81%</u>
Average Year 1983			
Long-Term Debt	48.25%	10.37%	5.00%
Preferred Stock	3.25	5.30	.17
Common Equity	48.50	14.00	6.79
Total	<u>100.00%</u>		<u>11.96%</u>

### Results of Operations

Table 3 compares the summary of earnings estimates of Southwest and staff for estimated years 1981 and 1982 at present and proposed rates, together with the adopted summary of earnings.

At the hearing, Southwest's witness Randall testified that although he found some minor items in staff's estimates troublesome, staff's overall results were acceptable to Southwest. He also stipulated that staff's downward revision of use per customer from 214.2 Ccf to 212.1 Ccf for the three-year test period was acceptable in terms of this rate case. For the purposes of this proceeding we will adopt staff's estimates of results of operations for test years 1981, 1982, and 1983, adjusted to reflect the revised stipulated use per customer since they were based on more recent information.

The authorized rates will increase annual revenues by \$572,000, or 22.1%, for test year 1981, plus an additional increase of \$138,300, or 4.4%, for test year 1982.

Attrition

Operational attrition is defined as a decline in the rate of return in the years following the test year caused by increases in expenses and rate base which are not offset by increases in productivity and/or revenue. Financial attrition, for ratemaking purposes, is the change in a utility's cost of long-term debt due to the issuance or retirement of senior securities. This can be estimated for the year following the test year from the utility's projections of future financing. In this proceeding staff recommends an allowance for both financial and operational attrition. In particular, staff recommends that the rate of return be adjusted in 1982 and 1983 to recognize the impact of financial attrition and to allow Southwest a reasonable opportunity to earn a rate of return within the recommended range of 13.50% and 14.00%. Since we will adopt a rate of return of 14.00% on common equity in those years, the corresponding rates of return on rate base are 11.81% for 1982 and 11.96% for 1983.

Staff also recommends step rates for the year 1983 based on an analysis of the operational attrition in rate of return between the years 1981 and 1982. Staff's estimated rates of return at present rates indicate an operational attrition of 0.79% between the years 1981 and 1982. Between 1982 and 1983 staff estimates financial attrition on the return on rate base with no change in capital structure will result in slippage of 0.15%. Thus, a 0.94% attrition allowance would provide an approximate increase in gross revenues for 1983 of \$96,200, or 2.9%, based on staff's 1982 estimated rate base.

We adopt the operational and financial attrition allowance recommended by staff. Southwest will be required to file an advice letter with supporting work papers on or after November 15, 1981 and November 15, 1982 to justify the step rate increases for the years 1982 and 1983, respectively.

Table 3  
SOUTHWEST SUBURBAN WATER - LA MIRADA DISTRICT  
Estimated Results of Operations  
Test Year 1981  
(Page 1)

Item	Present Rates			Authorized
	Utility	Staff <sup>1/</sup>	Adopted	Results
(Dollars in Thousands)				
Operating Revenues	\$2,483.9	\$2,591.7	\$2,591.7	\$3,163.7
<u>Operating Expenses</u>				
Operation & Maintenance	1,466.6	1,516.9	1,516.9	1,519.0
Administrative & General	539.2	496.1	496.1	504.6
Depreciation Expense	206.4	217.8	217.8	217.8
Taxes-Other Than Income	100.1	99.1	99.1	99.1
State Corp. Franchise Tax	-4.7	2.2	2.2	56.1
Federal Income Taxes	-51.0	-20.6	-20.6	212.8
Tot. Oper. Exp.	2,256.6	2,311.5	2,311.5	2,609.4
Net Operating Rev. Adj.	227.3	280.2	280.2	554.3
Rate Base	4,342.0	4,725.3	4,725.3	4,725.3
Rate of Return	5.23%	5.93%	5.93%	11.73%

<sup>1/</sup> Adjusted due to stipulated estimated customer usage of 212.1 Ccf.

Table 3

## SOUTHWEST SUBURBAN WATER - LA MIRADA DISTRICT

Estimated Results of Operations

Test Year 1982

(Page 2)

Item	Present Rates			Authorized
	Utility	Staff	Results	Results
(Dollars in Thousands)				
Operating Revenues	\$2,486.8	\$2,619.2	\$2,619.2	\$3,302.0
<u>Operating Expenses</u>				
Operation & Maintenance	1,491.6	1,556.5	1,556.5	1,559.0
Administrative & General	600.7	548.0	548.0	558.1
Depreciation Expense	213.0	222.3	222.3	222.3
Taxes-Other Than Income	105.0	104.8	104.8	104.8
State Corp. Franchise Tax	-16.1	-6.2	-6.2	58.1
Federal Income Taxes	-101.6	-58.1	-58.1	220.6
Tot. Oper. Exp.	2,292.6	2,367.3	2,367.3	2,722.9
Net Operating Rev. Adj.	194.2	251.9	251.9	579.1
Rate Base	4,547.8	4,903.0	4,903.0	4,903.0
Rate of Return	4.27%	5.14%	5.14%	11.81%

Rate Design

As indicated earlier, Southwest proposes to increase its revenues by increasing only the service charge component of its rates while its commodity use rates remain the same as at present. In support of this proposed rate design proposal, Southwest's witness Randall testified as follows:

1. In an era during which there has been a great deal of discussion urging that commodity costs for utilities be brought up from an average cost to something approaching the incremental cost of furnishing such utility service, Southwest's present rate design is already in excess of its highest incremental cost of additional water supply. Thus, Southwest's rate design structure is already unbalanced and has been for a number of years.
2. Southwest's commodity cost is currently 38 cents per Ccf, while its average volume-related cost is almost 21 cents per Ccf - a differential of 17 cents.
3. Southwest's highest cost imported water, taken as a last source, is only 31 cents per Ccf, including the cost of power - a differential of 7 cents. Since Southwest goes to other less expensive sources of water before purchasing its most expensive water, the differential gets progressively greater. This disparity is both unfair to the customer and to Southwest because if the customer has to use 100 Ccf, he has to pay 38 cents while it costs Southwest an average of only 20.9 cents (from Exhibit 4). Conversely, if the customer decreases consumption by 100 Ccf, the customer saves 38 cents, while Southwest's costs are reduced only an average of 20.9 cents, a result which is unfair to Southwest.

4. Under present rates, revenue is about 46.6% from the service charge and 53.4% from the commodity charge. At proposed rates, using figures from staff's tables, Southwest would be deriving 58% of its operating income through service charges and only 41.9% from the variable or commodity charge. However, if Southwest were to separate its operating expenses, depreciation, taxes, and return, to the fixed and variable components of its rates, it would show 70.7% of its cost of service to be fixed and 29.3% of its cost of service to be variable. Thus, even under the proposed increase in service charge, Southwest is still far from having the fixed charge cover its fixed cost although it would be an improvement over Southwest's present situation.
5. Southwest believes its unbalanced rate design is a fundamental cause of its high earnings volatility. Because Southwest's customary water usage amounts have been widely fluctuating from one year to another and its revenues have been so dependent upon the commodity component, it has been extremely difficult to figure out what its earnings are going to be, and in many cases in the past it has been far below what it should have been.
6. As a result of this rate structure, if consumption is lower than estimated, it will result in a falloff in earnings to a much greater degree than the reduction in consumption. By the same token, if consumption is far above the estimates, the effect on earnings will be markedly higher. It exacerbates the change just due to changes in weather by being more unbalanced.



It is Southwest's basic position that its unbalanced rate structure should not be made even more unbalanced by increasing the commodity cost and further increasing the spread between incremental cost and the commodity rate. Southwest believes the fairest situation for both customer and company is when the customer pays his proportion of the fixed cost and his proportion of the commodity cost.

Staff believes that Southwest's proposal is contrary to the Commission's policy of instituting use-sensitive utility rates in an effort to increase conservation of natural resources. However, in the opinion of Southwest's witness Randall, the adding of an increase to a service charge rather than to the commodity charge will not have any effect on the customer's awareness of the necessity for conservation. He stated his belief that it would take at least a doubling of the commodity rate before the customer would find it conducive to reduce his consumption. The witness believes that the most effective means of encouraging conservation is through education and publicity.

Staff recommends that any increase in rates should be allocated equally between the service charge and quantity charge components to maintain the present ratios of those two components to the total revenues for general metered service (Schedule LX-1). Staff further recommends that present rate Schedules 4 and 4A should be multiplied by the authorized percentage increase in revenues to determine the authorized rates. Staff also recommends that the current fire protection surcharges on Schedule LX-1 should be folded into the service charge component on a monthly per meter basis and that the service charges for the 3/4-inch, 1-inch, and 1 1/2-inch meters should be rounded to the nearest 10 cents while those for meters larger than 1 1/2-inch should be rounded to the nearest dollar.

While we have in the past generally adopted a policy of authorizing use-sensitive rates in general rate proceedings as a means of stimulating conservation, we are also mindful that strict adherence to such policy can contribute to greater earnings volatility.

We do not share Southwest's opinion that it would require a doubling of the per unit commodity charge before it would have any conservation effect on customer usage.

We note from Southwest's presentation that at present rates about 46% of the revenues result from the service charge and 54% from the commodity charge. Apportionment of the increase authorized herein equally between service charge and commodity rate as recommended by the staff will maintain this approximate relationship. We believe this percentage to be reasonable and therefore will adopt the staff's recommended rate design.

The staff recommendations that present rates in Schedules 4 and 4A should be multiplied by the authorized percentage increase in revenues to determine the authorized rates, and that the service charges for Schedule LM-1 for the 3/4-inch, 1-inch, and 1 1/2-inch meters be rounded to the nearest 10 cents and larger meters be rounded to the nearest dollar have not been contested and are adopted.

The accumulated increase in revenues authorized since January 1, 1976 has exceeded 25%. Therefore, the service charge for the 5/8- x 3/4-inch meter and the quantity charge for the first block, 0-300 cubic feet, can be increased the same percentage amount as the service charges for the other meter sizes and the second quantity block, over 300 cubic feet.

Other Staff Recommendations

The staff report believes that when a 28.1% increase in revenues is sought in 1981, it is unreasonable to increase the charges for the smallest size meter, 5/8- x 3/4-inch, by 72.8% and the other meters by an average of 63%. We agree and, instead, will direct that the increase in service charges be equally distributed among all size meters.

Findings of Fact

1. Southwest's customer service, conservation program, pump efficiency program, and water quality are satisfactory.

2. Southwest's La Mirada District is in need of additional revenues, but the proposed increases of \$697,300 (28.1%) for 1981, and additional increases of \$139,100 (5.6%) for 1982, and \$220,000 (8.8%) for 1983 are excessive.

3. Southwest stipulated to a water use per customer of 212.1 Ccf for the three-year test period.

4. Southwest stipulated to the operating expense estimates of staff for the three-year period.

5. The proposed rates of return on rate base of 12.93%, 13.08%, and 13.2% for the respective test years 1981, 1982, and 1983 requested by Southwest to produce a 16.0% return on common equity are excessive.

6. The increases in rates and charges in Appendix A authorized by this decision are justified and are just and reasonable, and the present rates and charges, insofar as they differ from those prescribed, 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, 1981 and/or September 30, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for Southwest during the corresponding period in the most recent rate decision or (b) 11.73% for 1981 and 11.81% for 1982.

8. Rates of return of 11.73%, 11.81%, and 11.96%, respectively, on Southwest's rate base for 1981, 1982, and 1983 are reasonable. The related return on common equity each year is 14%. This will require an increase of \$572,000, or 22.07%, in annual revenues for 1981; a further increase of \$138,300, or 4.4%, for 1982; and a further increase of \$96,200, or 2.9%, for 1983.

9. The adopted rate design is reasonable.

10. The adopted estimates, in Appendix C previously discussed, of operating revenues, operating expenses, and rate base for the test years 1981 and 1982, and for the year 1983, together with an annual fixed rate of decline in rate of return of 0.79% for 1983 due to operational attrition, plus 0.15% for financial attrition, reasonably indicate the results of Southwest's future operations.

11. It is reasonable to adopt the rates set forth in Appendix A.

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. This order should be effective on the date signed because there is an immediate need for additional revenues.

INTERIM ORDER

IT IS ORDERED that:

1. After the effective date of this order, applicant, Southwest Suburban Water (Southwest), is authorized to file for its La Mirada District the revised rate schedules for 1981 shown in Appendix A attached to this order. This filing shall comply with General Order Series 96. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1981 Southwest is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases for 1982 shown in Appendix A attached to this order or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that the La Mirada 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 Southwest during the corresponding period in the then most recent rate decision or (b) 11.73%. This filing shall comply with General Order Series 96. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedules shall be no earlier than January 1, 1982, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 15, 1982 Southwest is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases for 1983 shown in Appendix A attached to this order or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix A in the event that the La Mirada 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 Southwest during the corresponding period in the then most recent rate decision or (b) 11.81%. This filing shall comply with General Order Series 96. The requested step rates shall be

reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedules shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. As part of the filing for the next general rate increase for its La Mirada District, Southwest shall submit a report showing the cost-effectiveness of its conservation programs discussed.

This order is effective today.

Dated SEP 15 1981, at San Francisco, California.

*id*  
15. This is an interim order pending further review of the Tax Act of 1981 and its effect on revenue requirements.

*John E. Burton*  
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President  
*Richard W. Powell*  
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*Richard W. Powell*  
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*Richard W. Powell*  
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*Richard W. Powell*  
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Commissioners

APPENDIX A  
Page 1

SOUTHWEST SUBURBAN WATER

Schedule No. LM-1

La Mirada Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of La Mirada, Norwalk, Cerritos, Buena Park, and vicinity, Los Angeles and Orange Counties.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter. . . . .	\$ 5.95	(I)
For 3/4-inch meter. . . . .	8.10	
For 1-inch meter. . . . .	10.90	
For 1-1/2-inch meter. . . . .	14.60	
For 2-inch meter. . . . .	20.00	
For 3-inch meter. . . . .	37.00	
For 4-inch meter. . . . .	50.00	
For 6-inch meter. . . . .	83.00	
For 8-inch meter. . . . .	132.00	(I)

Quantity Rate:

For all water delivered per 100 cu. ft. . . . .		
First 300 cubic feet per month. . . . .	\$0.360	(I)
Over 300 cubic feet per month. . . . .	0.464	(I)

The service charge is applicable to all metered service. It is readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.



APPENDIX A  
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SOUTHWEST SUBURBAN WATER  
Schedule No. 4  
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All tariff areas.

RATES

	<u>Service Area</u>		
	<u>San Jose</u>	<u>Whittier</u>	
For each inch of diameter of service connection, per month . . . . .	\$4.07	\$4.09	(I)

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost for the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
- ~~2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter, and backflow device) shall be paid for by the applicant.~~
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to, and egress from the premises for all purposes relating to said facilities.
4. 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.
5. 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 main extension from the nearest existing main of adequate capacity shall be installed by the utility. The cost of such main extension attributable to the fire protection requirement shall be paid to the utility as a contribution in aid of construction.

APPENDIX A

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SOUTHWEST SUBURBAN WATER

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

(continued)

SPECIAL CONDITIONS (cont.)

6. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction. All facilities are to be installed according to the utility's specifications and maintained to the utility's satisfaction. The utility may require the installation of a backflow prevention device and a standard detector type meter approved by the Insurance Service Office for protection against theft, leakage, or waste of water.

7. No structure shall be built over the fire protection service and the customer shall maintain and safeguard the area occupied by the service from traffic and other hazardous conditions. The customer will be responsible for any damage to the fire protection service facilities.

8. Subject to the approval of the utility, any change in the location or construction of the fire protection service as may be requested by public authority or the customer will be made by the utility following payment to the utility of the entire cost of such change.

9. Any unauthorized use of water through the fire protection service will be charged for at the applicable tariff rates and may be grounds for the utility's discontinuing fire protection service without liability.

10. The utility shall be required to supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A

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SOUTHWEST SUBURBAN WATER

Schedule No. 4A

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

APPLICABILITY

Applicable to all fire hydrant service rendered from fire hydrants connected to Company-owned mains on private property.

TERRITORY

Throughout all tariff areas.

RATES

	Per Month		
	San Jose	La Mirada	
4" riser type fire hydrant with single 2½" outlet	\$3.03	\$3.42	(I)
6" riser type fire hydrant with steamer head	4.25	4.76	(I)
6" standard type fire hydrant	6.07	6.71	(I)

SPECIAL CONDITIONS

1. The fire hydrant will be installed by the utility or under the utility's direction at the cost of the applicant. The cost will not be subject to refund.
2. The fire hydrant shall be used for fire fighting purposes and fire drills only. Water use for fire drills will be limited to 15 minutes per week.
3. The replacement, enlargement, or relocation of any hydrant made at the request of the customer shall be paid for by the customer.
4. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the rights to ingress to, and egress from the premises for all purposes relating to said facilities.
5. The repair and maintenance of the hydrants will be the responsibility of the applicant.

APPENDIX A

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SOUTHWEST SUBURBAN WATER

Schedule No. 4A

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

(Continued)

6. Any authorized use of water will be charged therefor under the General Metered Service schedule for the particular tariff area, and/or may be grounds for the utility to discontinue the service without liability to the utility.

7. There shall be no cross-connection between the fire hydrant service and any other source of supply without the specific approval of the utility. This specific approval will require at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any such unauthorized cross-connection may be grounds for immediate disconnection of the fire hydrant service without liability to the utility.

8. The utility shall be required to supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

(END OF APPENDIX A)

APPENDIX B

SOUTHWEST SUBURBAN WATER

La Mirada Tariff Area

AUTHORIZED INCREASES IN RATES

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>SCHEDULE NO. LM-1, General Metered Service</u>	<u>Rates to be Effective</u>	
	<u>1-1-82</u>	<u>1-1-83</u>
<u>Quantity Rates:</u>		
First 300 cu.-ft., per 100 cu.-ft. . . . .	\$0.011	\$0.011
Over 300 cu.-ft., per 100 cu.-ft. . . . .	0.013	0.017
<u>Service Charge:</u>		
For 5/8 x 3/4-inch meter . . . . .	\$0.20	\$0.17
For 3/4-inch meter . . . . .	0.30	0.20
For 1-inch meter . . . . .	0.40	0.30
For 1 1/2-inch meter . . . . .	0.50	0.40
For 2-inch meter . . . . .	1.00	-
For 3-inch meter . . . . .	1.00	1.00
For 4-inch meter . . . . .	2.00	1.00
For 6-inch meter . . . . .	3.00	2.00
For 8-inch meter . . . . .	4.00	4.00

SCHEDULE NO. 4, PRIVATE FIRE PROTECTION SERVICE

Rates:

For each inch of diameter of service connection, per month . . . . .	\$0.17	\$0.12
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SCHEDULE NO. 4A, FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

Rates:

4" riser type with single 2 1/2" outlet . . . . .	\$0.14	\$0.10
6" riser type with steamer head . . . . .	0.20	0.14
6" standard type . . . . .	0.29	0.20

(END OF APPENDIX B)

APPENDIX C  
Page 1

SOUTHWEST SUBURBAN WATER  
La Mirada Tariff Area

ADOPTED QUANTITIES

Net-to-Gross: 2.0870  
 Federal Tax Rate: 46%  
 State Tax Rate: 9.6% (for both test years)  
 Local Franchise Tax Rate: 1.49%  
 Business License: -  
 Uncollectibles Rate: 0.360%

OFFSET ITEMS

Purchased Power

Electric:

Southern California Edison Company

Rates in Effect on 7/31/81

ECARF: \$0.04133  
 FCBAF: -0.00121  
 CLMAC: 0.00004  
 ECS: 0.00016

	<u>Test Years</u>	
	<u>1981</u>	<u>1982</u>
Water Pumped (KCCF)	1,184.9	1,184.9
kWh - Wells	1,566,366	1,702,940
Water Boosted (KCCF)	4,238.8	4,260.8
kWh - Boosters	1,188,162	1,173,326
Total kWh	2,762,657	2,882,307
Total Cost	\$186,100	\$193,500
Cost/kWh	\$0.06736	\$0.06713

APPENDIX C  
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SOUTHWEST SUBURBAN WATER  
La Mirada Tariff Area

	<u>Test Years</u>	
	<u>1981</u>	<u>1982</u>
<u>Gas:</u>		
<u>Southern California Edison Company</u>		
<u>Rates in Effect on 7/31/81</u>		
Water Boosted (KCcf)	4,238.8	4,260.8
Therms - Boosters	18,262	18,033
Total Cost	\$6,500	\$6,400
Cost/Therm	\$0.35993	\$0.35490
 <u>Purchased Water</u>		
<u>Central Basin</u>		
Quantity (acre-feet)	1,297	1,586
Unit Cost (\$/acre-foot)	\$116.00	\$116.00
Total Cost	\$150,400	\$183,900
 <u>Cal. Domestic</u>		
Quantity (acre feet)	2,832	3,161
Unit Cost (\$/acre-foot)	\$36.03	\$36.03
Total Cost	\$102,000	\$113,900
Stock Assessed (shares)	1,564	1,962
Assessment (\$/share)	\$31.50	\$31.50
Total Cost	\$49,300	\$61,800
Entitlement (acre-feet)	2,241	2,799
Excess (acre-feet)	590	362
Assessment (\$/acre-foot)	\$61.20	\$61.20
Total Cost	\$36,100	\$22,200

## APPENDIX C

Page 3

SOUTHWEST SUBURBAN WATER  
La Mirada Tariff Area

	<u>Test Years</u>	
	<u>1981</u>	<u>1982</u>
Stock Leased (shares)	345	433
Unit Cost (\$/share)	\$15.00	\$15.00
Total Cost	\$5,200	\$6,500
<u>Inter-District</u>		
Quantity (acre-foot)	2,882	2,024
Unit Cost (\$/acre-foot)	\$102.80	\$102.80
Total Cost	\$296,300	\$208,100
<u>Groundwater Assessments</u>		
<u>Central Basin</u>		
Well Production (acre-foot)	2,720	3,010
Assessment (\$/acre-foot)	\$16.00	\$16.00
Total Cost	\$43,500	\$48,200
Leased Water Rights (acre-foot)	492	507
Unit Cost	\$69.75	\$69.75
Total Cost	\$34,300	\$35,300
<u>Payroll Taxes</u>		
Expensed Payroll	\$456,400	\$513,600
Expensed Payroll Taxes	\$36,400	\$40,300



APPENDIX C  
Page 4

SOUTHWEST SUBURBAN WATER  
La Mirada Tariff Area

<u>Postage:</u>	<u>Test Years</u>	
	<u>1981</u>	<u>1982</u>
Postage Expense	\$17,900	\$18,000
<u>Ad Valorem Taxes: (\$1,000)</u>		
District: Market Value	\$ 4,966.3	\$ 5,116.9
Tax Amount	59.7	61.5
Tax Rate	1.202%	1.202%
Common Alloc.: Market Value	\$ 217.9	\$ 216.6
Tax Amount	3.0	3.0
Tax Rate	1.382%	1.382%

CUSTOMERS AND CONSUMPTION

Item	Number of		Total Usage		Average Usage	
	Customers		(Kcuf)		(Ccf/Yr.)	
	1981	1982	1981	1982	1981	1982
Residential	12,550	12,640	2,661.9	2,680.9	212.1	212.1
Business	268	280	498.8	521.0	1,861.2	1,860.7
Industrial	18	18	139.4	139.4	7,744.4	7,744.4
Public Authority	48	48	485.4	485.4	10,112.5	10,112.5
Other	6	6	11.7	11.7	1,950.0	1,950.0
Subtotal	12,890	12,992	3,797.2	3,838.4		
Private Fire Protection	211	222				
Public Fire Protection	-	-				
Other Flat Rate	3	3	38.9	38.9		
Subtotal	214	225	38.9	38.9		
Water Loss	-	-	402.7	383.5		
Total	13,104	13,217	4,238.8	4,260.8		
Pumped Water			1,184.9	1,311.3		
Purchased Water			3,053.9	2,949.5		

## APPENDIX C

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## SOUTHWEST SUBURBAN WATER

La Mirada Tariff Area

## RATE DESIGN DATA

Metered Service Charges	1981		1982		1983
	Customers	Revenue (000)	Customers	Revenue (000)	Revenue (000)
5/8 x 3/4-inch meter	108	\$ 7.7	109	\$ 8.0	\$ 8.3
3/4-inch meter	11,239	1,092.4	11,320	1,141.1	1,168.2
1-inch meter	973	127.3	980	132.9	136.4
1-1/2-inch meter	278	48.7	282	51.1	52.5
2-inch meter	221	53.0	229	57.7	57.7
3-inch meter	33	14.7	34	15.5	15.9
4-inch meter	30	18.0	30	18.7	19.1
6-inch meter	8	8.0	8	8.2	8.4
8-inch meter	-	-	-	-	-
Subtotal	12,890	1,309.8	12,992	1,433.2	1,466.5
<u>Metered Quantity Charges</u>	<u>Usage (Kcuf)</u>		<u>Usage (Kcuf)</u>		
0-300 cu-ft.	448.4	161.4	451.9	167.7	172.6
Over 300 cu-ft.	3,348.8	1,553.8	3,386.5	1,615.4	1,672.9
Subtotal	3,797.2	1,715.2	3,838.4	1,783.1	1,845.5
<u>Other Revenues</u>					
Private Fire Protection		60. <sup>1/</sup>		67. <sup>2/</sup>	67. <sup>3/</sup>
Other Flat Rate		2.0		2.0	2.0
Miscellaneous		16.2		16.2	16.2
Subtotal		78.7		85.7	86.0
Total Revenue		3,163.7		3,302.0	3,398.0

<sup>1/</sup> Adjusted -0.8<sup>2/</sup> Adjusted 0.7<sup>3/</sup> Adjusted -0.9

## APPENDIX C

Page 6

Southwest Suburban Water  
La Mirada Tariff AreaADOPTED TAX CALCULATION

:Line: :No. :	Item	: Test Year 1981 :		: Test Year 1982 :	
		: CCFT :	: FIT :	: CCFT :	: FIT :
(Dollars in Thousands)					
1	Operating Revenue	\$3,163.7	\$3,163.7	\$3,302.0	\$3,302.0
	<u>Expenses:</u>				
2	Operation & Maintenance	1,519.0	1,519.0	1,559.0	1,559.0
3	Administrative & General	504.6	504.6	558.1	558.1
4	Taxes Other Than Income	99.1	99.1	104.8	104.8
5	CCFT	-	56.1	-	58.1
6	Subtotal	2,122.7	2,178.8	2,221.9	2,280.0
	<u>Deductions From Taxable Income:</u>				
7	Tax Depreciation	245.0	245.0	246.4	246.4
8	Dividend Exclusion	5.5	4.7	5.5	4.7
9	Interest	208.9	208.9	219.9	219.9
10	Other	(2.4)	(2.4)	2.7	2.7
11	Subtotal Deductions	457.0	456.2	474.5	473.7
12	Net Taxable Income (CCFT)	<u>584.0</u>		<u>605.6</u>	
13	CCFT @ 9.6%	56.1		58.1	
14	Net Taxable Income (FIT)		528.7		548.3
15	FIT @ 46%		243.2		252.2
16	Graduated Tax Adjustment		(3.9)		(3.9)
17	ITC		(24.9)		(26.1)
18	Deferred Tax Adjustment		(1.6)		(1.6)
19	Total FIT		212.8		220.6

(Red Figure)

(END OF APPENDIX C)