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Decision 96-01-026 January 24, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Warren K. Johnson, et al.,
Complainants,

vs.

Santa Clarita Water Company,
Defendant.

Case 95-04-018
(Filed April 6, 1995)

ORIGINAL

Warren K. Johnson, in Pro Per, for complainants.
Len and G. Weiss, Attorney at Law, of Steefel,
Levitt & Weiss, for Santa Clarita Water
Company, defendant.

O P I N I O N

Statement of Facts

Background

The Santa Clarita Water Company (Company) is a Class A water public utility serving approximately 21,000 metered and flat rate customers in the City of Santa Clarita and surrounding areas. The Company obtains its water supply from three sources: 13 wells drawing from the shallow subsurface flow of the Santa Clara River in Bouquet Canyon and Canyon Country; two deep wells drawing from the Saugus Formation, a deep aquifer underlying the general area; and the Castaic Lake Water Agency (Castaic), a water transmission agency created by a 1976 bond issue to import, treat, and distribute State Water Project (SWP) water to the four retail water purveyors (including Company) in the general area between the

San Gabriel and Santa Susana Mountains in Los Angeles County.¹
 The following table shows the respective contributions in acre feet (AF) from the three sources in each of the last five years (from Company's Annual Reports):

Table 1

Sources of Supply and Water Developed in AF

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
The Shallow Santa Clara River Wells	5,083	5,593	8,298	12,016	10,996
The Saugus Formation Wells	40	4,781	2,913	2,901	3,863
The Castaic Lake Water Agency	<u>12,480</u>	<u>6,158</u>	<u>6,350</u>	<u>3,429</u>	<u>5,052</u>
	17,603	16,532	17,561	18,346	19,911

Although it does not have to purchase all of its entitlement in any given year, by state law, the Company has a preferential right to purchase 59.8% of whatever water Castaic has available for distribution. Because the Company's alluvium wells produce excessively mineralized and hard water, the Castaic and Company's Saugus deep well water is needed to blend the delivered product. The stated goal of the company is to deliver a 50/50 blend in normal years.² The water drawn from each source meets

¹ Under state law relating to the Agency, Castaic has 11 members on its Board of Directors; seven elected, and one appointed member from each of the four area water retailers: Company, Valencia Water Company, Newhall County Water District, and Los Angeles County District #36.

² As waters enter Company's system from widely dispersed sources, there is no central holding tank to equally blend the different quality waters. Accordingly, the percentage of water

(Footnote continues on next page)

or exceeds the stringent health and quality standards established by the federal Environmental Protection Agency and the California Department of Health Services. The Company pays \$145 per AF for water purchased from Castaic. The Company's cost per AF for the ground water it produces varies between \$95 and \$100 depending upon the cost of electricity and the location of a particular well.

The Company's last general rate proceeding was in 1982. By Decision (D.) 82-08-019 issued August 4, 1982, the Company was authorized a 51.7% increase in rates for 1982, and step increases of 8.4% and 6.6% in 1983 and 1984, respectively. The Company was authorized a 13.01% rate of return on rate base to yield a 13.50% return on equity. That decision anticipated a 53.8% increase in the cost of purchased water (from \$65 to \$100/AF) from the then nascent Castaic system.

Complaint and Answer

On April 6, 1995, a complaint signed by 61 individuals, assertedly customers of the Company, was filed with the Commission. The complaint alleged that as a result of the 1991 drought and the 1994 earthquake, the Company's purchased water supplies had been interrupted or reduced several times. Since the customers' water rates are assertedly based on a combination of supply costs from the Company's wells and Castaic, the customers assert that they have been paying for expensive water they were not always

(Footnote continued from previous page)
from sources delivered to individual customers necessarily varies, although the Company's stated objective is a 50/50 blend in normal years. The extensive service territory of the Company includes river plain, steep canyon, and high plateau areas with elevations ranging from 1,200 to 2,150 feet above mean sea level.

receiving. The complaint suggested that the cost for purchased water be divided proportionately monthly among ratepayers, with retail rates to be charged according to the respective quantities of purchased and Company water involved. The complainants would also factor in energy requirements associated with the pumping of the Company's water. It was further alleged that when the "good quality" Castaic water is not available for blending, the quality of delivered water degrades to an inferior quality. Finally, the complaint stated that in 1993 the Company had a 20% rate of return, and that customers are overcharged by excessive rates.

The Company's answer denied the allegations of the complaint. In response, the Company asserted that based on its 1982 rate case adopted costs, it recovered less than 1/2 of its production costs for some of its ground water sources, and recovered only \$100 of the present \$145 per AF of Castaic water costs, with the result that there has been a revenue shortfall of \$2.2 million over the intervening years. As to energy costs, it asserts that with a 1982 adopted energy cost of 0.1344 per one hundred cubic feet (Ccf), and an average actual cost of 0.1447 per Ccf there was an additional shortfall of \$810,000 over the intervening years. The combined effect of these changes has been a total revenue shortfall of approximately \$3 million. It also noted interruptions to the state imported water supply in 1991 and 1994 as the consequences of drought and earthquake.

Public Hearing

A duly noticed public hearing was held on August 28, 1995 in the Council Chambers of the City of Lancaster before Administrative Law Judge John B. Weiss. Approximately 50 persons were in attendance. Upon receipt of concurrent final briefs from both parties on October 10, 1995, the matter was submitted for decision.

At the hearing, complainants presented their case through six witnesses and four exhibits. Defendant presented its case through three witnesses and eight exhibits.

Complainants' Evidence

Although much of the testimony was in hearsay form, the thrust of the testimony presented by complainants was that the Company's purchase of Castaic water has steadily declined since 1990; and that the Company, at least for some of the time it was engaged in litigation with Castaic and the other water purveyors in the area,³ had not accepted its share of Castaic water allocated to it for an indeterminate period of time (inferentially three years). Consequently, by using more of its own well water which was cheaper to produce, customers were overcharged for Castaic water they did not receive; received inferior quality water at no reduction in rates; and must pay the second highest rates of the four area purveyors, while Company is making excessive profits. In an effort to substantiate this last allegation, one witness referred to extracted line 39 (net income before dividends) and line 2 (operating income) from Schedule B of Company's 1994 and 1993 Annual Reports, and used their relationship to reach a conclusion that there were profits in excess of 18% and 24%, respectively, for years 1994 and 1993. The witness also introduced a calculation page (Exhibit 3) which another had prepared, purporting to evidence the excess profits.

Another complainant witness in generalized testimony stated that since 1982 Company has experienced significant growth, allowing it to distribute its costs over a much wider customer base but the Company has not adjusted its rates. Accordingly, other

³ Company is challenging Castaic's right to reallocate water contractually allocated to Company, and Castaic's desire to change the notification window prior to imposing a rate increase.

witnesses complained that there had been an attempt to transfer the Company to Castaic through proposed State legislation (which did not pass the Legislature but is likely to be reintroduced), and that this legislation would have removed the transaction from the purview of the Public Utilities Commission. Witnesses objected to the secrecy, lack of any competitive bidding, and that Company does not make its negotiations public. The witnesses spoke of inferior quality water but none of them had ever complained previously either to the Company or to the Commission. There was one instance of complaint that occurred six years ago. There were also assertions of leaks and pressure fluctuations after the January 1994 Northridge earthquake.

Another witness, the Board President of the Newhall County Water District (Newhall), stated he had been asked to testify by complainants. While not an accountant, he testified that he had asked his Newhall financial people to look at this Company's Annual Reports, and was told that they showed that the Company had an approximate 24% profit for 1993 and nearly 20% for 1994. He stated that he noticed that while Company normally took an average 12,000 AF from Castaic per year, after the lawsuits began, Company's purchases tumbled down to 3,000 AF annually. After the complaint was answered, purchases jumped up to 1,000 AF per month.⁴ On cross-examination, it developed that Newhall has an undisclosed interest in an adverse acquisition of Company, and has had an ad hoc committee assigned to talk to Company's president. The Company's president has told the ad hoc Committee

4. This statement must be contrasted with late-filed Exhibit 4 from complainant. Castaic's Water Production Report, 1994-1995, showed Company took the following AF monthly in 1995: January - 462 AF; February - 321 AF; March - 568 AF; April - 935 AF; May - 578 AF; and June - 872 AF.

to come back after the deadline for submission of legislation in Sacramento for 1995 has passed.

Company's Evidence

William Manetta, the Company's president, testified that Company with 20,000 connections is the largest of the four area retail purveyors, that Valencia is next with 15-16,000, Newhall with 6-7,000 is third, and County with 500 is fourth. He testified that the Company's water from all three sources meets state, federal, and local requirements.⁵ Notably, Company well source water does not require chlorination while Castaic's State Water Project derived water does.

The Company witness related that after 1990, the quantity of water purchased from Castaic was less than the Company desired, because of factors such as the drought continuing into 1993 (albeit briefly interrupted by a heavy rainfall in March of 1991), a ground water rights issue, the January 1994 earthquake, and declining water consumption as a result of conservation. He stated that State Water Project deliveries to Castaic went to zero in 1990, thus curtailing the amounts of water Castaic could distribute in 1991 and 1992. This forced the area's retail water purveyors and the Newhall Land and Farming Company to pump their own ground water into the Castaic system, from whence it was distributed on an offsetting swap basis, almost dollar for dollar in an emergency cooperative effort.⁶ In 1993, the Company's president stated, the Company realized there were questions for the future as to how much SWP Castaic might be able to deliver. To protect itself, the Company filed an application with the State Water Resources Control

⁵ In substantiation, he introduced Castaic's 1994 Water Quality Report (Exhibit 6).

⁶ Castaic's deliveries dropped to 9,270 Af and 15,439 AF in 1991 and 1992, from over 21,600 AF in 1989 and 1990.

Board (SWRCB) to appropriate subsurface flow from the Santa Clara River, and began pumping from that aquifer to substantiate its claim, thereby reducing its source requirement from Castaic. The SWRCB application has not yet been resolved. He further testified that as a consequence of the January 17, 1994 earthquake, there was a virtual three-month shutdown of Castaic.⁷ He conceded that the earthquake caused a service interruption that lasted as long as six days for some customers, although many were back in service within 24 hours, and approximately 50% within 2-1/2 days. The earthquake cut off power to pumps, broke mains, and caused \$100,000 damage to Company's system. The Company's Annual Report for 1994 indicates that it obtained 55.2% of its water from its shallow wells (including the new Santa Clara River subsurface pumping), 19.4% from the two deep Saugus wells, and 25.3% from Castaic. Thus, the blend was still close to 50/50 of acceptable water although only 1/4 was from Castaic. The president also testified that there was lessened consumption from conservation practices.⁸

With regard to the issue of water rates, the Company's president introduced Exhibit 11 showing that as of May, 1995, essentially the time of the complaint filing, the Company's monthly rate, including service charge, for 30 Ccf of water, was the lowest

⁷ Late-filed Exhibit 4 (the Castaic Report) shows Castaic's distribution in January 1994 at about 1/2 normal, essentially zero in February and March, and drastically below normal in April and May. In both April and May of 1994, Company took over half of all Castaic's available water.

⁸ Table 1 does not support the lessened consumption contention. In 1994, consumption exceeded 1990 by 5%, increasing from 18,503 to 19,911 AF.

of any of the area's four water purveyors.⁹ He stated that no increase in water rates is projected unless Castaic increases its purchased water charge above \$145/AF. As a board member of Castaic, he has resisted any increase.

One of the Company's largest water consumers, the operator of a garden center and nursery, and a former Castaic Board member, testified that Company's rates are low compared not only locally, but also as compared to those in San Fernando Valley and other adjoining valleys.

Finally, the Company's vice-president and chief financial officer, John Garon, testified on cross-examination that the last rate case allowed a 13% rate of return; and that for 1995, it is projected to be 11%, for 1994 was 10%, for 1993 was 13%, and for 1992 was 12-1/2%.

Final Briefs

Both parties submitted final briefs. Complainant's brief, using the "Selected Financial Data" of the Company's Annual Reports for 1994 and 1993, corrected its witness' error at hearing. Using net operating income divided by net plant investment (line 37 divided by line 13) it pointed up the respective 17.5% and 23.1% return indicated, respectively, for each of these years, which complainants argue seems out of line for a public utility. They contrast these figures with those given by the utility's financial officer at the hearing. They again point out that the Company was pumping cheaper ground water in lieu of purchasing the more expensive and better quality state water through Castaic.

The Company's brief argues that the complainants' real goal is to "get at" Castaic to preempt a feared takeover of the

9	Santa Clarita	\$32.67
	Valencia	36.22
	LA City Dist.	46.03
	Newhall	46.94

Company by Castaic and that the charges against the Company are irresponsible. The Company repeats that its water quality has always exceeded standards; that customer complaints never exceeded two per year over the past five years (with 19,400 hookups); that Company's earthquake performance was exemplary; that its rates are the lowest in the area; and that its rate of return on rate base 1992-1994 has been below the 13.1% last authorized. As to underutilization of Castaic water, the Company points out that on average over the past 15-year period, it has purchased 1/2 of its requirements from Castaic. The brief reviews the events causing variance below 50% since 1991 - the drought, the earthquake, and the water rights proceeding. It further states that based on the first six months of 1995, it will be back to taking 50% of its annual water needs from Castaic in 1995. It states its excuse for not filing a rate proceeding is that its rates are largely driven by Castaic's rates and were low.

With submission of concurrent final briefs on October 10, 1995, the matter was submitted for decision.

Discussion

In a complaint proceeding, the burden is upon the complainants to produce convincing and probative evidence that a defendant utility has done or has omitted to do something in violation of any provision of law or any order or rule of the Commission (Public Utilities (PU) Code § 1702). However, also in a complaint proceeding, where not less than 25 actual or prospective customers of the utility challenge the reasonableness of the rates (2nd paragraph PU Code § 1702), the Commission has jurisdiction to entertain the complaint as to the reasonableness of any rate charges.

The complainants assert that the Company has not used as much SWP water as the Company agreed to. However, apart from the Company's conceded stated intention to in normal times blend its "inferior" quality alluvial derived water with "good" water to aim

at a 50/50 mix, complainants cite nothing that requires this.¹⁰ The Company's Exhibit 9 shows that from 1984 to 1995, the blend of good water to inferior has been 51/49. But following year 1990, of necessity things had to change. As the Company's witness testified without refutation, matters were no longer normal because of the drought. SWP deliveries to Castaic went to zero, in late 1990. Consequently, Castaic's deliveries drastically fell, forcing its four customers to utilize their own resources. Castaic deliveries to all four purveyors went from a total 21,613 AF in 1990 to only 9,270 AF in 1991. In 1991, Company received only 6,158 AF from Castaic, half of its previous year's take, and much of this was in return, or a swap, of its own deep Saugus wells water it put into the Castaic system during this time.¹¹ In 1992, with 6,350 AF from Castaic, and 2,913 AF from its own Saugus deep wells, and by pumping 8,298 AF from its shallow alluvial wells, Company was still blending 53/47. Only in 1993 and 1994, when the Company's concerns from political and other issues relative to future Castaic deliveries led it to apply to SWRCB, and to increased alluvium source pumping to support that application, did this latter source furnish over half of Company's requirements. And in 1994, the Castaic and Saugus sources provided 47% of Company's requirements.

¹⁰ The 1980 and 1982 Commission decisions, D.91372 and D.82-08-019, which in part were addressed to water quality problems the utility was then experiencing, in anticipation of future Castaic State Water Project deliveries, contemplated blending, and provided that of the 11,500 AF Company then required, 6,500 AF were to come from Castaic, and 5,000 AF from the Company's alluvium wells. An initial Castaic contract limited Company to a maximum of 7,500 AF by 1985. This was changed by 1986 Legislative Enactment to allow Company 59.8% of available potable water, but there was no requirement Company had to take it or any specific part of it.

¹¹ Company's Saugus deep wells pumping went from 40 AF in 1990 to 4,781 AF in 1991 as part of the replacement effort.

Today, the Company's requirements are approximately 20,000 AF annually. Except for 1993 and 1994, when the shallow subsurface Santa Clara River source pumping was substantially increased to bolster the SWRCB application, and to replace the Castaic water lost in the virtual three-month 1994 Castaic shutdown as a consequence of the earthquake, the Company has maintained a blending balance by drawing from its two Saugus wells to add to its Castaic supply. The Company's pursuit of an SWRCB application to assure a future supply seems reasonable in view of some uncertainties in the Castaic State Water Project future deliveries, and its attendant increased pumping to support that application appears prudent so long as the overall quality of its water deliveries to its customers does not deteriorate. The Company has an obligation to all its customers to assure future water supplies.¹² Consumer complaints to the Commission, not exceeding two per year, with approximately 19,400 connections, do not indicate any significant service or water quality problems. Interestingly, of the present complainants who testified, only one complained of a quality problem, and that happened six years ago when 70% of the water then being delivered was from Castaic.

As to the Company's secrecy in discussions concerning possible acquisition by Castaic, there is nothing that requires it to reveal the fact, much less the content, of such discussions to the public or potential other interested parties. A public utility such as Company is a private, investor owned entity, and until it reaches some sale or other transfer agreement it has no legal obligation to go public. Should a sale or other transfer be determined upon, then all aspects must be submitted to the

¹² Indeed, in the 1980 proceeding (D.91372), the Commission staff had urged that the Company seek formal adjudication of these water rights.

Commission for approval before the transaction can be consummated. Any such transaction before Commission approval would be void (PU Code § 851 et seq.)

This brings us to the gravamen of this complaint which, in essence, is that the substitution of its own cheaper to produce water for much of the water formerly purchased from Castaic has resulted in drastically reduced costs to the Company, and that none of this windfall benefit, whether attributable to drought, SWRCB application, or earthquake, has been passed through to the ratepayers in lower rates; so that the Company's rate of return is excessive. There appears to be merit in this contention. The difference in the cost of water between a \$145/AF source, and a \$95-100/AF source is substantial. Table 2 shows that over the 1990-1994 period Company's water cost per AF was reduced \$21. Continuation at an annual volume of 20,000 AF results in lowered cost to the Company of \$420,000 per year.

Table 2

Cost of Water

1990:	Co. produced	5,123 AF	x \$100 =	\$ 512,300	
	Co. purchased	12,480 AF	x 145 =	1,809,600	
		17,603 AF		2,321,900	ave. \$132/AF
1991:	Co. produced	10,374 AF	x \$100 =	\$1,037,400	
	Co. purchased	6,158 AF	x 145 =	892,910	
		16,532 AF		\$1,930,310	ave. \$117/AF
1992:	Co. produced	11,211 AF	x \$100 =	\$1,121,100	
	Co. purchased	6,350 AF	x 145 =	920,750	
		17,561 AF		2,041,850	ave. \$116/AF
1993:	Co. produced	14,917 AF	x \$100 =	\$1,491,700	
	Co. purchased	3,429 AF	x 145 =	497,205	
		18,346 AF		\$1,988,905	ave. \$108/AF
1994:	Co. produced	14,859 AF	x \$100 =	\$1,485,900	
	Co. purchased	5,052 AF	x 145 =	732,540	
		19,911 AF		\$2,218,440	ave. \$111/AF

Despite these lowered costs to the Company for water, nothing was passed through to the ratepayers in lowered charges.

The Company's last rate proceeding (in 1982) authorized a rate of return on rate base of 13.01%. Using figures from the Company's Annual Reports, 1991 through 1994, taken from the Selected Financial Data Sections showing net operating income (line 37) and net plant investment (line 13), we obtain the following return figures:

Table 3

	<u>Return</u>			
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Net Operating Income	1,003,362	1,260,286	1,789,745	1,418,541
Net Plant Investment	6,908,299	7,231,450	7,731,495	8,101,145
Return	15.8%	17.4%	23.1%	17.5%

While the Table 3 figures are unadjusted figures (i.e., no adjustments for working cash and materials, etc.), and therefore the returns shown are not the precise returns on rate base, nevertheless, the returns indicate a probable return on rate base substantially above both the 13.01% authorized applicable in D.82-08-019 for 1982, 1983, and 1984, and the 9.05-11.31% currently being authorized various Class A water utilities.

Finally, we note the Company's dividend appropriations to common stock for the period 1990-1994:

1990	\$ 540,000
1991	540,000
1992	1,161,000
1993	648,000
1994	1,233,000

These preceding figures on water costs, returns, and dividend appropriations serve to indicate that a financial and operations review in the form of a full rate proceeding is overdue. Without examination of all the factors involved, such as is

provided in such a proceeding, we cannot provide definitive answers. A community is entitled to just, reasonable, and nondiscriminatory rates. Regulated utilities render service at cost plus a reasonable return on property devoted to the service commensurate to that generally being made at the same time and in the same general part of the country on investments attended by the same risk. Disposition of net earnings is a management decision, the Commission's concern being that overall earnings are not excessive. Here, earnings appear to be excessive for a utility.

The complainants ask that rates be adjusted and a refund plus interest be paid back to 1983. Rates are set prospectively, not retroactively (Cal. Cities Water Co. (1967) 67 CPUC 1972). The rates charged today were found reasonable in prior rate proceedings, and even if, as alleged, these rates are today excessive, the Commission cannot grant any retroactive relief in this proceeding (PU Code § 734). However, the Commission can and will order the Company to file a general rate application to justify continuation of the rates and charges presently in effect, and will direct and order that such filing be made no later than June 1, 1996.

Defendant asserts complainants are abusing the complaint procedure; that there is no legitimate complaint because rates are low, there is no evidence of a water quality problem or of consumer complaints. But then the defendant states that there is "no evidence" of excessive profits or rates of return. As we have stated, the unadjusted figures taken from defendant's own Annual Reports indicate returns substantially above those authorized in the Company's last rate proceeding, and even more above those returns currently being authorized Class A utilities by the Commission.

Other than sitting by until such time as defendant might elect to bring a rate proceeding wherein complainants could enter protests, complainants have no other avenue than a complaint.

proceeding to bring the apparent excessive rate situation to the Commission.

To afford defendant opportunity to immediately proceed with preparation of its rate filing, the order which follows should be made effective immediately.

Findings of Fact

1. Company is a Class A water public utility under the jurisdiction of this Commission as it serves approximately 20,000 connections in and around the City of Santa Clarita in Los Angeles County.

2. Castaic is a locally funded, Legislatively created agency which began operation about 1980 to distribute State Water Project water to the four retail water purveyors, including Company, in the area.

3. Company's water, taken from its own wells drawing from the shallow subsurface flow of the Santa Clara River, is excessively hard and mineralized, albeit meeting all federal and state standards. Company's water taken from its two wells drawing from the deep Saugus aquifer is more acceptable and also meets all federal and state standards.

4. By D.91372 issued in 1980, Company was authorized for the future to mix water purchased from Castaic with its shallow well water, and by D.82-08-019 issued in 1982, Company was authorized rates sufficient to absorb the approximate 50% additional cost of such Castaic purchased water.

5. In 1986, Company received a legislatively derived preference to purchase up to 59.8% of whatever State Water Project water Castaic has available for delivery in any given year. However, Company is not obligated contractually to take any given amount.

6. Over the 1980 through 1990 period, Company purchased approximately 61% of Castaic's deliveries.

7. Because of the California drought, the State Water Project deliveries to Castaic were curtailed drastically, so that in 1991, Castaic's deliveries to its four retail purveyors were reduced to 42% of its 1998-1990 deliveries; 71% in 1992, and 66% in 1993 and 1994 (except that a substantial portion of the 1991 and 1992 Castaic deliveries was of water locally acquired from the regional purveyors and other sources drawing from local wells, rather than of State Water Project water.

8. Beginning in 1991, Company made up for the Castaic shortfall by drawing up to a quarter of its requirements from its heretofore quiescent two Saugus wells tapping the deep Saugus aquifer with its better class water.

9. By 1993, concerned about Castaic's future ability to deliver its requirements and in an endeavor to fix its rights to draw from the subsurface flow of the Santa Clara River, Company filed an application with SWRCB to determine its rights, and in order to substantiate that claim substantially increased its pumping from its shallow wells, obtaining 66% of all its requirements from that source in 1993 and 55% in 1994.

10. The Company asserts that its stated objective is to obtain in normal years a 50/50 blend of shallow well water with better water, the latter customarily from Castaic.

11. Customer complaints are minimal in recent years.

12. Company's water rates to its ratepayers are the lowest of the four area water purveyors.

13. Company has not sought a rate proceeding since Application 60983 in 1981, which proceeding resulted in D.82-08-019 granting Company a 13.01% return on rate base and a 13.50% return on equity.

14. In the 1982-1994 interval, the Company has enjoyed a 75% increase in the number of services; water requirements have increased 81%; and operating revenues are up 218.6% while operating expenses increased 130%. Today there is no long-term debt whereas

in 1982 long-term debt represented 26.97% of Company's capitalization.

15. Comparisons of net operating revenues to net plant investment (unadjusted), for years 1991, 1992, 1993, and 1994, indicate returns are probably substantially above last authorized returns on rate base for the Company, as well as returns currently being authorized for Class A water utilities.

Conclusions of Law

1. Company should be ordered to file a rate proceeding as soon as is reasonably possible.

2. The complaint in other respects should be dismissed as defendant has done nothing nor has done anything in violation of any law or any order or rule of the Commission.

ORDER

IT IS ORDERED that:

1. Except as provided in Ordering Paragraph 2 of this order, Case 95-04-018 is dismissed.

2. Santa Clarita Water Company shall by June 1, 1996 file with the Commission a general rate proceeding, with respect to all aspects of its operations.

This order is effective today.

Dated January 24, 1996, at San Francisco, California.

P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

Commissioner Daniel Wm. Fessler
is necessarily absent on official
business.