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WATER/RSK/SHI/jlj **Agenda Item # 7027**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER AND AUDITS DIVISION **RESOLUTION NO. *W-4665***
November 1, 2007

R E S O L U T I O N

(RES. *W-4665*), SOUTHERN CALIFORNIA EDISON COMPANY, CATALINA ISLAND WATER SYSTEM. ORDER AUTHORIZING A GENERAL RATE INCREASE TO PRODUCE ADDITIONAL ANNUAL REVENUE OF $2,569,390 OR 198% IN TEST YEAR 2006. THE REVENUE INCREASE WILL BE PHASED IN OVER A FOUR-YEAR PERIOD.

SUMMARY

By Draft Advice Letter filed on December 9, 2005, Southern California Edison requested a general rate increase for Catalina Island, a Class C water utility, for Test Year 2006. This resolution authorizes an increase of $2,569,390, or 198%, relative to 2005 revenue, for an 8.77% return on rate base for Test Year 2006. This results in Test Year 2006 revenue of $3,870,000. The resolution also changes the current 2-tier rate structure to a 3-tier increasing block rate structure with an expanded tier 1. The rate increase will be phased in over a four-year period from 2007 to 2010. Southern California Edison is also authorized to establish a Deferred Revenue Requirement Tracking Account (DRRTA) to track the annual deferred revenue that results from the rate increase phase-in plan.

BACKGROUND

Southern California Edison requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase water revenue for Catalina Island Water System (Catalina Island), a Class C water utility, by 248% or $3,220,390 over 2005 revenues, for a 9.07% return on rate base for Test Year (TY) 2006. The purpose of the rate increase was to recover increased operating expenses and to provide an adequate rate of return on plant investment. Catalina Island's present rates became effective on January 1, 1985, per Decision (D.) 83-10-045. There had been no other rate change since the 1983 general rate case.

In order to promote conservation, Catalina Island also proposed changing its current 2-tier increasing block rate structure to a 3-tier increasing block rate structure. To mitigate the impact of the rate increase, the lowest rate (tier 1) was to be slightly expanded from 2,000 gallons to 2,500 gallons per month. Tier 3, at the highest rate, was to be created to send appropriate

economic signals to encourage Catalina Island's heaviest-usage water customers to conserve water.

With a surface area of 75 square miles, Santa Catalina Island is situated approximately 30 miles southwest of Huntington Beach in southern California. The primary industry on Catalina Island is tourism. Avalon, located on the east end of the island, is the only city and major population center on the island. Figures from the 2000 census show that the city of Avalon had a population of 3,127, with another 195 in the areas surrounding the city limits. The total permanent population on Catalina Island is now estimated at over 3,500. During holidays, weekends, and the summer months, the population can swell to over 10,000. The island's summer temperature averages 75 degrees, while in winter the temperature averages 65 degrees. Catalina Island has a semi-arid climate. On average the sun shines 267 days a year and the average rainfall is 14 inches per year. Historical rainfall data show that on average the annual rainfall varies from the norm by approximately 50% in either direction.

As an isolated water system in a semi-arid climate with no economically feasible means to import large quantities of water from outside the island, Catalina Island is highly susceptible to the effects of prolonged low rainfall. For example, rainfall in 2002 fell short of the historical average by 53% and in 2003 the total rainfall fell short of the average by 13%, triggering phase one (the mildest stage) water rationing beginning on January 8, 2004 and ending on January 25, 2005. Following a number of years of inactivity beginning in 1992 and again in 1995, the desalination plant in Avalon was reactivated in 2003 as a way to ensure a reliable long-term water supply during prolonged low rainfall or drought years.

As of December 31, 2005, Catalina Island had 1,934 metered service connections and no flat rate connections. Catalina Island derives its primary water supply (totaling 512 acre-feet in 2005) from a system of wells, springs, and reservoirs. According to Southern California Edison the desalination plant was designed to produce an additional 85 acre-feet annually, but in times of emergency can produce more by reducing scheduled maintenance. Excluding water production from the desalination plant, Catalina Island has a Commission-approved safe annual yield of 515 acre-feet.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed rate increase was mailed by Southern California Edison to each customer on or prior to March 20, 2006. The Water and Audits Division (Division) received letters of protest against the proposed increase from 38 customers and local government officials. Most of the protests were based on the anticipated hardship to both residents and businesses alike that will be caused by the proposed large increase.

The Division staff and Catalina Island representatives held two sessions of a public meeting at the City of Avalon City Hall on April 19, 2006. Thirty customers attended the afternoon session and thirty-four attended the evening session. Division staff explained to the participants

Commission rate-setting procedures, and Southern California Edison's regional manager explained the justifications behind the proposed rate increase. Among the primary reasons cited by Southern California Edison were: an aging infrastructure that required major capital improvements in 2005 and 2006; the large expense associated with the reactivation in 2003 and the continued operation of the desalination plant; and the fact that Catalina Island had not filed for any rate increase since the last general rate case in 1983 while expenses have gone up greatly due to inflation. The rest of the meeting consisted of comments and questions by the customers, with most of the comments along the lines of:

1. Catalina Island water customers should not be required to pay for Southern California Edison's management mistakes and end up with a huge rate increase due to Southern California Edison's failure to properly maintain its system through the years and its failure to use good management sense and apply for an increase sooner, instead of waiting for more than 20 years before acting;
2. The sizable proposed increase would force commercial customers to raise prices and would thus make them uncompetitive with neighboring tourist destinations, perhaps driving some commercial customers out of business; and
3. The sizable proposed increase would create unbearable hardship on residential customers.

DISCUSSION

This resolution authorizes an increase of $2,569,390, or 198%, in revenue for an 8.77% return on rate base for test year 2006, as authorized in D.05-12-043 for Southern California Edison's electric and gas operations. As shown in Appendix D, for an average customer with a 5/8 x 3/4-inch meter who consumes 3640 gallons per month, the summer monthly bill will increase from $30.79 to $55.94, or an increase of 82%, in 2007. The same customer's winter bill will increase from $25.28 to $49.75, or an increase of 97%, in 2007.

To mitigate the impact of the large rate increase, the increase will be phased-in over four years from 2007 to 2010. Catalina Island is also authorized to establish a Deferred Revenue Requirement Tracking Account (DRRTA) to track the annual deferred revenue that results from the rate increase phase-in plan.

The Division performed an independent analysis of Catalina Island's summary of earnings for the years 2006 to 2008. Appendix A shows Catalina Island and the Division's estimates of the Summary of Earnings for Test Year 2006 and for escalation years 2007 and 2008.

Audit of Expenses

To ensure proper accounting of the expenses and the rate base used to justify the rate increase, the Division conducted an audit of Catalina Island's records. As a result of the audit, some reported expenses were either restated or excluded entirely. Catalina Island disputed several of the Division's audit findings. After further review, the Division finds either partial or complete merit in Catalina Island's explanations for the following three items:

1) Expenses related to Asplundh Tree and Abate-a-Weed concerning vegetation removal from dam faces and surrounding areas (the work was performed at the request of the California Department of Water Resources, Division of Safety of Dams);
2) Housing allowance for the general manager and the water superintendent (this is consistent with D.83-10-043 in the 1983 GRC in which a travel allowance for Southern California Edison's employees was deemed reasonable and was allowed as a rate-making expense); and
3) $27,583 in marketing for conservation expenses.

The Division has allowed the company to place into rates the full cost for items 1 and 2, but only one-half of the cost of item 3. The reason for excluding half the cost of item 3 is that the Division finds merit in the auditor's conclusion that these expenses were not purely conservation-related educational items, but were in part cost for promotional items that benefited Southern California Edison's public image and goodwill.

Uniform System of Accounts

The Division's audit determined that Catalina Island's accounting system for operation and maintenance expenses did not follow the Uniform System of Accounts (USOA) format as required by the Commission for Class B, C, and D water utilities. Instead, Southern California Edison followed the FERC accounting format appropriate for its electric and gas operations. At the request of the Division, the expenses were restated by Southern California Edison to comply with the USOA standard. The Division recommends that Southern California Edison be required to follow the USOA format in Catalina Island's accounting system.

Capital Improvement Projects in 2005 and 2006

Central to this general rate case are the following ten capital projects totaling $6,838,965:

1. Little Harbor Pipeline Replacement – to improve the reliability of the water distribution system by replacing severely damaged and vulnerable sections of the primary service pipeline to customers on the west-end of Catalina Island. Total cost was $784,008;

2. Middle Ranch Well 6-A Installation – involves the construction of a new drinking water well and associated electrical operation and control system, due to surface water contamination of an old well. Total cost was $1,119,108;

3. Middle Canyon and Cape Canyon Piezometer Installation – involves the installation of six piezometers for subsurface water table information-gathering purposes. Total cost was $332,175;

4. Thompson Piezometer Pier Decommissioning – involves the removal of the Thompson Reservoir pier and the proper abandonment of the associated piezometers. Total cost is $100,000;

5. Pebble Beach Landfill Distribution Pipeline – involves the design and construction of a new potable water service pipeline to provide drinking water service to the customers at the east-end of Catalina Island. Total cost was $385,672;

6. Wrigley Reservoir – involves the design and replacement of the reservoir cover, reservoir liner, area draining, and a bypass pipeline system at Wrigley Reservoir. Total cost was $2,503,934;

7. Desalination Plant Source Water and Drainage System – involves the design and construction of two new seawater source wells, an underground water transmission pipeline, and some subsequent desalination plant improvements. Estimated cost of the project is $1.016 million, but estimated net cost to Catalina Island ratepayers is $266,000 due to a $750,000 settlement that Southern California Edison received to offset the total cost;

8. Howlands Distribution Tank – involves the replacement of the Howlands water distribution tank. Total cost was $456,699;

9. Lead and Copper Aeration System – involves the design and construction of an 800-gpm water treatment aeration system to reduce copper and lead levels at customer faucets. Total cost was $1,160,368; and

10. Basement Fill (Common Project) – involves the filling of the basement of the combined administration office with concrete. Total cost was $97,000.

The Division examined workpapers and expenses on the ten projects. The Division staff further visited the ten sites involved in the projects. The Division agrees with Catalina Island on both the need for the capital projects and their levels of expenditure.

Expenses

With the exception of a few accounts in which 2004 figures were not representative of historical norms, the Division estimated the expenses for Test Year 2006 by using the actual 2004 expenses as the starting point, adjusting the expenses by the audit recommendations. For the several accounts where 2004 did not appear to represent historical norms, due apparently to the one-time expenses associated with the start-up of the desalination plant, 2005 historical amounts or 2006 Southern California Edison-requested amounts were selected. The Division then escalated the expenses using the appropriate labor or non-labor inflation factors to bring all the expenses to the 2006 level. The Division then added in the following expenses that Catalina Island budgeted as additional expenses for 2006 and beyond:

1. $15,000 in non-labor cost for production, justified by lead and copper sampling costs;
2. $14,000 in labor cost for distribution, justified by 2 new utility positions;
3. $72,000 in non-labor cost for distribution, justified by 2 new utility positions and new activities (dam maintenance, water tank inspection and cleaning, meter accuracy);
4. $43,000 in labor cost for production, justified by 2 new utility positions;

5. $9,000 in non-labor cost for production, justified by 2 new utility positions;
6. $147,000 in labor cost for office supplies and expenses, justified by 3 new positions (water superintendent, engineer, project analyst) in 2006, removal of one part-time position, training of 7 crew members to obtain Department of Health Services (DHS)-required certification;
7. $68,000 in non-labor cost for office supplies and expenses, justified by the housing allowance for the 3 new positions, minus one part-time position, training of 7 crew members for DHS-required certification, and regulatory filing expense; and
8. 1% Franchise Fee rate to be paid to the City of Avalon and a 0.24% uncollectibles rate.

The Division largely selected 2004 as the appropriate base year for escalation for the following reasons:

1. By the end of 2004, Catalina Island had completed the reactivation of the desalination plant and any extra costs associated with the normal operation of the desalination plant were reflected in the 2004 reported expenses; and
2. 2005 and 2006 are inappropriate years for escalation as they likely contain significant one-time costs associated with major capital improvement activities which were begun in 2005 and completed in 2006.

Expenses for years 2007 and 2008 were estimated by escalating the 2006 Division-recommended expenses in the same manner to bring them to the respective 2007 and 2008 levels. The Division then calculated the revenue requirements necessary to produce the authorized rate of return of 8.77% on rate base for 2006 to 2008.

Desalinated Water

Producing fresh water from sea water by desalination is a highly energy intensive process and should be utilized only when no other economical water supplies are available. This is illustrated by the fact that for Catalina Island in 2005 desalinated water accounted for only 25% of total water production, but desalination accounted for approximately 70% of total electricity usage. As 2005 was a wet year, with rainfall at 145% of the historical norm, there is no convincing evidence that desalinated water was needed as a significant supplemental supply source in 2005, save perhaps for a small amount necessary to keep the plant running at a certain state of operational readiness and to allow the crew members to keep their certification. This point aside, the Division did not reduce the amount of projected purchased power expense based on this observation.

Purchased Power Expense

The Division's calculation of the purchased power expense for 2006 to 2008 is based on the three-year (2003 - 2005) average power factor (kWh/1000 gallons) of net production data. The average power factor is then multiplied by the projected water production to calculate projected power consumption. Finally, the projected power consumption is multiplied by the 2005 composite power cost ($/kWh) to arrive at the purchased power cost. Using this method, the

Division's estimate for electric costs is less than that estimated by Southern California Edison by a fair amount as Appendix A shows.

In accordance with Res. No. W-4467, dated April 22, 2004, Southern California Edison is authorized to establish a memorandum account to track changes in purchased power expenses. Recovery of the expenses may be requested by advice letter at any time or may be considered for recovery in Catalina Island's next general rate case.

Phase-in Plan

To alleviate the impact of the large increase, Southern California Edison proposed a 3-year phase-in plan, with revenues to be partially deferred from collection in 2006 and 2007. In the phase-in plan originally proposed by Southern California Edison, there will be no deferred revenue for year 2008 and all deferred 2006 and 2007 revenues will be fully paid up by the end of 2008 as well. The Division instead recommends a phase-in plan such that required revenue increases follow a 3-year phase-in and deferred revenue collection follows a 4-year phase-in. Under this hybrid plan, the annual required revenue portion will be fully phased in by 2009. Furthermore, the deferred revenue requirement for year 2007 will be amortized over the years 2008 to 2010 in level amounts. Likewise, the deferred revenue requirement for 2008 will be amortized over years 2009 and 2010 in level amounts. The revenue phase-in plan is shown in Appendix B. The 2009 and 2010 revenue requirements shown in Appendix B have been projected for illustration purposes and do not include provisions for inflation and additional plant investments. The Division recommends that Southern California Edison be authorized to file advice letters in 2009 and 2010 to increase rates to reflect inflation in 2008 and 2009 and any additional plant improvements.

Southern California Edison requested permission to create an interest-bearing Deferred Revenue Requirement Tracking Account (DRRTA) to track the deferred revenue arising from the phase-in plan. Southern California Edison further requested that the prevailing 90-day commercial paper rate, compounded monthly at 1/12th the published rate, be used to track the deferred revenues.

The Division considered Southern California Edison's proposal for the DRRTA and concurs with Southern California Edison concerning the need for this deferred revenue tracking mechanism. However, as minimizing rate shock is a well-founded Commission rate-making principle, the Division recommends that deferred amounts arising from test years 2007 and 2008 be non-interest bearing. Furthermore, Res. No. W-4540 would ordinarily allow all Class B, C, and D utilities a surcharge for uncollected revenue for the period between the first day of the test year (2006) and the effective date of the rate increase. In this instance, in order to minimize the impact of rate shock, the Division recommends that no such surcharge be allowed, since Southern California Edison elected to forego an interim rate increase as stated in the cover letter of its advice letter for this general rate case.

The Division recommends this hybrid 3-year/4-year phase-in plan as it creates gentler rate increases over a four-year period than either a purely 3-year or purely 4-year phase-in plan can. In order to prevent application of retroactive ratemaking, the Division also recommends that

Southern California Edison be barred from deferred revenue collection for all of 2006 and that part of 2007 prior to the effective date of this resolution. The DRRTA will therefore only track deferred revenue starting with the effective date of this resolution. The details of the hybrid 3-year/4-year phase-in plan are shown in Appendix B.

Service Charge

As a water utility with no purchased water expenses, Catalina Island has high fixed costs amounting to approximately 80% of required revenues. Catalina Island's current rate structure is such that it collected only 21% of the fixed costs through its service charge in 2005, whereas the Division's Standard Practice U-7-W, (Rate Design for Water and Sewer System Utilities Including Master Metered Facilities) recommends that a Class C water utility should recover up to 65% of the fixed costs through its service charge. To change Catalina Island's rate structure to approach the 65% fixed cost recovery rate would create significant hardship on its low-usage water customers. The Division therefore retained the rate structure such that 21% of the fixed costs are recovered in the service charge. A side benefit of this lower than recommended fixed cost recovery rate than that recommended in Standard Practice U-7-W is that more of the revenue is recovered through the quantity charge, creating an added incentive for customers to conserve water.

Furthermore, Standard Practice U-7-W recommends that the service charge for each meter size should follow a set of progressive ratios based on meter size. It soon became apparent that with Catalina Island's current rate structure, forcing adherence with the progressive ratios would lead to violation of the principal that no customer would receive more than twice the average increase for the whole system. The ratios were therefore relaxed to create a flatter service charge scale, with the service charge rate increase for the larger meter sizes set at twice the rate increase for the smaller meter sizes. It is expected that with each successive rate increase, the service charge rates will approach those implied by the ratios in Standard Practice U-7-W.

Quantity Rate

The Division largely relied on Catalina Island's projection of usage patterns for 2006 to 2008 by season and tier. The Division retained the conservation factor format proposed by Southern California Edison to create a 3-tier increasing block rate structure. Furthermore, summer and winter quantity rates were separately calculated so that the average summer price is 116% of the total average price and the winter price is 82% of the average price, generally retaining the same methodology as presented by Southern California Edison in its filing workpapers.

Safe Annual Yield Study

Catalina Island's current safe annual yield of 515 acre-feet from its aquifers was established in D.90-05-033, dated May 4, 1990. Southern California Edison believes this figure to be still valid. The Division recommends that Southern California Edison be ordered to update the safe annual yield and file an advice letter within 180 days from the effective date of this resolution for the Division's review. The Division bases its recommendation on the variance and uncertainty of Southern California Edison's production figures submitted to the Commission and the fact

that the last study was performed prior to 1990. The Division will recommend whether a revision of Catalina Island's safe annual yield is warranted.

Rate of Return on Rate Base

Consistent with Decision D.83-10-045 in the last general rate case, the appropriate rate of return on rate base is that which applies to Southern California Edison as a whole company and not just to its investments in water operations. Catalina Island should therefore be treated as a Class A water utility for the purpose of choosing the appropriate rate of return on rate base. By extension of this reasoning, the alternate method of determining the revenue requirement using the operating ratio method for Class C and D water utilities per D.92-03-093 does not apply. By D.05-12-043, Southern California Edison's authorized rate of return on rate base for test year 2006 is 8.77%. The Division's calculations assume the 8.77% rate of return to be applicable for escalation years 2007 and 2008 as well.

Low-Income Assistance Program

The Commission, through its Water Action Plan, encourages water utilities to develop low-income rate assistance programs for water customers. As the Commission has no universal requirement currently in effect to compel a water utility to offer any type of low-income assistance program, its implementation is considered on a case-by-case basis at each water company's general rate case.

The Division requested Southern California Edison to explore the cost effectiveness and feasibility of implementing a CARE-type program (California Alternative Rate for Energy available for energy customers) to provide low income residential customers with a 20% discount on their water bills. Southern California Edison considered the costs and benefits of implementing this program during the current GRC cycle. Southern California Edison estimated that the implementation cost relating to system and billing modifications would total approximately $70,000, while the total estimated discount to all low income customers during the first test year would amount to under $19,000. Southern California Edison further cited "other more massive system conversions and changes for implementation of the Enterprise Resource Planning (ERP) system are currently in progress" as impediments to the implementation of a low-income program during the current GRC cycle.

Although the Division is mindful to always take into account the costs versus benefits when considering a low-income assistance program, the Division concludes Southern California Edison's justification to postpone the program to the next GRC cycle based on its comparison of costs versus benefits to be fallacious. First, the $70,000 implementation cost estimate cited by Southern California Edison seems grossly excessive. Second, even assuming the $70,000 implementation cost estimate to be accurate, it is still predominantly a one-time expense. Whether the low-income program is implemented during the current GRC cycle or the next, roughly the same $70,000 expense would still have to be incurred.

The Division is also not persuaded by Southern California Edison's explanation of ongoing system conversions being impediments to a timely implementation of a low-income program.

While the system conversions may present a temporary challenge to implementation, the Division expects the conversions to conclude far in advance of the next expected GRC cycle in 2009. It defies common sense to postpone the low-income program to 2009 based on a short-term delay due to the system conversions.

The Division recommends that Southern California Edison be ordered to file an advice letter within six months of the effective date of this resolution to establish a low-income assistance program that offers a 20% discount to its low-income customers. The eligibility criteria will be modeled after the CARE program on Southern California Edison's electric and gas side.

Lastly, Southern California Edison estimates that approximately 10% of its customers would qualify for low income assistance. In order to simplify the implementation of the low-income assistance program, Division recommends that Southern California Edison be authorized to establish a memorandum account to track lost revenues arising from the 20% discount. Southern California Edison is authorized to then file an advice letter to recover the lost revenues by imposing a surcharge on its regular customers.

Conservation

Through its Water Action Plan the Commission also encourages conservation. Catalina Island's customer usage profile shows that 90% of customers use 33% of the water and the remaining 10% of customers consume 67% of the water. To promote water conservation given this usage profile, Southern California Edison proposes changing its current 2-tier increasing block rate to a 3-tier increasing block rate structure, with the third tier at a significantly higher rate than the first 2 tiers. The intent is to send a strong monetary signal to its largest water users to conserve water. The summer/winter differential rate structure will also be retained to encourage customers to conserve during the summer months when the system strains to provide an adequate water supply.

COMPLIANCE

Southern California Edison is currently providing water service to its Catalina Island water customers according to the standards of General Order 103. Southern California Edison has filed annual reports for its Catalina Island Water System regularly. There are no outstanding Commission orders requiring system improvements. Catalina's tariff sheets were reviewed by the Division and the following sheets need to be updated: Rules 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuation and Restoration of Service; 17, Measurement of Service; and 21, Fire protection; and Form 2, Customer Deposit Receipt. There was one billing complaint in 2004 that has since been closed. There was no customer complaint in either 2005 or 2006.

Non-compliance items

1. Southern California Edison failed to follow the USOA for its water system as required by D.85-04-076 for Class C water utilities. Southern California Edison should be required to follow the USOA for its water system in its annual reports submitted to the Commission.

2. Pumps at several production sources on Catalina Island are of a water-lubricated design in which a small quantity of water is continuously fed back from a load-side check valve to the pump in order to provide the pump with adequate lubrication. The present metering configuration at these pumps fails to take into account the reverse flow of water being fed back to the pumps, leading to an inflated measurement of annual production. This problem was brought to light during the Division's examination of Catalina Island's unaccounted-for water. Catalina Island addressed this problem by estimating the amount of water fed back to the source and subtracting this amount from total measured production. Division finds this estimating method unacceptable as General Order 103, Section 4(a) implicitly requires that water supply sources be metered or determined accurately.

The Division recommends that Southern California Edison be ordered to remedy this deficiency by either putting a small meter on each back feed line or rearranging the relative positions of the check valves and the pump meters.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments. Comments were received on _____; replies were received on _____.

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix C) are reasonable and should be adopted.
3. The quantities (Appendix E) used to develop Division's recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. The amount of increase authorized herein is justified and the resulting rates are just and reasonable.
6. The expansion of the first tier and the creation of a third tier using an increasing block rate structure are both reasonable and should be adopted to send appropriate economic signals to encourage water conservation.
7. The four-year rate increase and revenue recovery phase-in plan is reasonable and should be adopted.

8. In accordance with Resolution No. W-4467, Southern California Edison, Catalina Island Water System, Southern California Edison should be authorized to establish a memorandum account to track changes in purchased power expenses. Recovery of the expenses may be requested by advice letter at any time or may be considered for recovery in Catalina Island's next general rate case.
9. Southern California Edison, Catalina Island Water System, should be allowed to establish a Deferred Revenue Requirement Tracking Account (DRRTA) to track the annual deferred revenue that results from the rate increase phase-in plan, with the provision that deferred revenues arising from escalation 2007 and 2008 be non-interest bearing in order to reduce rate shock to its customers.
10. The 2009 and 2010 revenue requirements shown in Appendix B have been projected for illustration purposes and do not include provisions for inflation and additional plant investments. Southern California Edison should be authorized to file advice letters in 2009 and 2010 to increase rates to reflect inflation in 2008 and 2009 and any additional plant improvements.
11. Southern California Edison, Catalina Island Water System, should be ordered to complete a groundwater modeling study and report back to the Commission within six months of the effective date of this resolution whether a revision to its safe annual yield is warranted.
12. Within 180 days from the effective date of this resolution, Southern California Edison, Catalina Island Water System, should be required to file an advice letter to establish a low-income assistance program that offers a 20% discount to its low income residential customers. The eligibility criteria will be modeled after the CARE program on Southern California Edison's electric and gas side.
13. Southern California Edison Company, Catalina Water System should be required to update Rules 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 17, Measurement of Service; and 21, Fire Protection; and Form 2, Customer Deposit Receipt.
14. Southern California Edison, Catalina Island Water System, should be authorized to establish a memorandum account to track lost revenues arising from the 20% discount. Southern California Edison may then file an advice letter to recover the lost revenues by imposing a surcharge on its regular customers.
15. Southern California Edison, Catalina Island Water System, should be required to follow the Uniform System of Accounts in its annual reports submitted to the Commission.
16. Southern California Edison, Catalina Island Water System, should be required to accurately determine water production at the water lubricated pumps either by installing a meter at the back feed lines in order to determine the precise amount of back-feed or rearranging the check valve and source meters at the production pumps so that the meters can measure the net production flow.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Southern California Edison Company, Catalina Island Water System, to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as

Appendices A and C, respectively, and concurrently to cancel its presently effective rate Schedule No. W-1, General Metered Fresh Water Service. The effective date of the revised rate schedule shall be 5 days after the date of filing.

2. Southern California Edison Company, Catalina Island Water System, is authorized to increase annual revenues by $2,569,390, or 198%, for a rate of return of 8.77% on rate base for Test Year 2006. This results in Test Year 2006 revenue of $3,870,000.
3. The quantities (Appendix E) used to develop the Division's recommendations are adopted.
4. The expansion of the first tier and the creation of a third tier using an increasing block rate structure are adopted.
5. The four-year rate increase and revenue recovery phase-in plan is adopted.
6. In accordance with Resolution No. W-4467, Southern California Edison Company, Catalina Island Water System, is authorized to establish a memorandum account to track changes in purchased power expenses. Recovery of the expenses may be requested by advice letter at any time or may be considered for recovery in Catalina Island's next general rate case.
7. Southern California Edison Company, Catalina Island Water System, is allowed to establish a Deferred Revenue Requirement Tracking Account (DRRTA) to track the annual deferred revenue that results from the rate increase phase-in plan, with the provision that deferred revenues arising from escalation 2007 and 2008 be non-interest bearing in order to reduce rate shock to its customers.
8. Southern California Edison Company, Catalina Water System, is ordered to update Rules 5, Special Information Required on Forms; 7, Deposits; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 17, Measurement of Service; and 21, Fire Protection; and Form 2, Customer Deposit Receipt.
9. Southern California Edison Company is authorized to file advice letters in 2009 and 2010 to increase rates to reflect inflation in 2008 and 2009 and any additional plant improvements.
10. Southern California Edison Company, Catalina Island Water System, is required to file an advice letter and submit a ground water modeling study proposing to the Commission within 180 days of the effective date of this resolution whether a revision to its safe annual yield is warranted.
11. Within 180 days from the effective date of this resolution, Southern California Edison Company, Catalina Island Water System, is required to file an advice letter to establish a low-income assistance program that offers a 20% discount to its low income residential customers. The eligibility criteria will be modeled after the CARE program on Southern California Edison Company's electric and gas side.
12. Southern California Edison Company, Catalina Island Water System, is authorized to establish a memorandum account to track lost revenues arising from the 20% discount. Southern California Edison Company is then authorized to file an advice letter to recover the lost revenues by imposing a surcharge on its regular customers.
13. Southern California Edison Company, Catalina Island Water System, shall follow the Uniform System of Accounts in its annual reports submitted to the Commission.

14. Southern California Edison Company, Catalina Island Water System, is required to accurately determine water production at the water lubricated pumps either by installing a meter at the back feed lines in order to determine the precise amount of back-feed or rearranging the check valve and source meters at the production pumps so that the meters can measure the net production flow.

15. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 1, 2007; the following Commissioners voting favorably thereon:

_____
PAUL CLANON
Executive Director

Appendix A
Southern California Edison Company
Catalina Island Water System

Summary of Earnings
Test Year 2006

Account	Category	2005	SCE Requested 2006 Amounts	Division Recommended 2006 Amounts	Division Recommended 2007 Amounts	Division Recommended 2008 Amounts
	Operating Revenues:					
460	Flat Rate	-	-	-	-	-
470	Metered	$ 1,300,610	$ 4,521,000	$ 3,870,000	$ 4,596,000	$ 4,572,000
	Total	$ 1,300,610	$ 4,521,000	$ 3,870,000	$ 4,596,000	$ 4,572,000
	Operating Expenses					
610	Purchased Water	-				
615	Purchased Power	1,333,288	333,000	260,508	262,156	263,730
	Purchased Chemicals			-		
618	Other Volume Related Expenses					
630	Employee Labor	790,000	895,560	789,236	814,492	829,153
640	Materials	454,074	208,774	232,371	236,321	240,102
650	Contract Work	344,504	340,550	374,733	388,598	402,199
	Water Testing					
660	Transportation Expense	60,818	69,061	75,778	77,520	78,823
664	Other Plant Maintenace Expense	-	-	-		
670	Office Salaries	106,342	114,408	62,615	64,619	65,782
671	Management Salaries	1,685	1,809	63,752	65,792	66,976
674	Employee Pension and Benefits	1,021	851	914	943	960
676	Uncollectibles	-	10,850	9,288	11,030	10,973
678	Office Service & Rentals	1,248	1,506	1,373	1,424	1,474
681	Office Supplies & Expenses	2,690	3,083	3,366	3,424	3,478
682	Professional Services	140,092	328,308	147,657	153,120	158,479
684	Insurance	-	-	-		
688	Regulatory Commission Exp.	-	-	-		
689	General Expenses	261,059	286,089	414,417	421,462	428,205
800	minus expenses capitalized	-	-	-	-	-
	Franchise fees		45,210	38,700	45,960	45,720
	Escalation	-	197,000	-	-	-
	Total Operating Expenses	$ 3,496,821	$ 2,836,059	$ 2,474,707	$ 2,546,861	$ 2,596,054
	Total Deductions					
403	Depreciation	$ 333,000	$ 438,000	$ 333,000	$ 480,000	$ 480,000
408	Taxes other than Income	144,000	144,000	144,000	144,000	144,000
	Total Deductions	$ 477,000	$ 582,000	$ 477,000	$ 624,000	$ 624,000
	Total Deductions and Expenses	$ 3,973,821	$ 3,418,059	$ 2,951,707	$ 3,170,861	$ 3,220,054
	Net income before taxes	$ (2,673,211)	$ 1,102,941	$ 918,293	$ 1,425,139	$ 1,351,946
	Income Taxes	$ (866,000)	$ 317,000	$ 194,142	473,805	442,499
	Net Revenue	$ (1,807,211)	$ 785,941	$ 724,151	$ 951,334	$ 909,447
	Rate Base:					
	Average Plant	$ 11,119,543		$ 14,170,500	16,861,000	16,861,000
	Average Depr. Res.	$ (5,641,184)		$ (5,910,500)	(6,010,000)	(6,490,000)
	Net Plant	$ 5,478,359	$ 8,668,000	$ 8,260,000	$ 10,851,000	$ 10,371,000
	Less: Advances/Contributions	-	-	-	-	-
	Add: Materials and Supplies	-	-	-	-	-
	Rate Base	$ 5,478,359	$ 8,668,000	$ 8,260,000	$ 10,851,000	$ 10,371,000
	Rate of Return	-32.99%	9.07%	8.77%	8.77%	8.77%

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Southern California Edison Company
Catalina Island Water System

Revenue Phase-in Plan

2007 revenue requirements	$	4,596,000
2007 recommended phase-in revenue	$	3,000,000
2007 deferred revenue[(1)]	$	194,937
2007 total revenue collections	**$**	**3,000,000**
2008 revenue requirements	$	4,572,000
2008 recommended phase-in revenue	$	3,850,000
2008 deferred revenue	$	722,000
2008 collection of 2007 deferred revenue	$	64,979
2008 total revenue collections	**$**	**3,914,979**
2009 revenue requirements	$	4,709,160
2009 recommended phase-in revenue	$	4,709,160
2009 deferred revenue	$	-
2009 collection of 2007 deferred revenue	$	64,979
2009 collection of 2008 deferred revenue	$	361,000
2009 total revenue collections	**$**	**5,135,139**
2010 revenue requirements	$	4,850,435
2010 recommended phase-in revenue	$	4,850,435
2010 deferred revenue	$	-
2010 collection of 2007 deferred revenue	$	64,979
2010 collection of 2008 deferred revenue	$	361,000
2010 total revenue collections	**$**	**5,276,414**

Note: 2009 and 2010 revenues have been projected for illustration purposes only and are not adopted amounts in this resolution.

[(1)] deferred revenue prorated from effective date of 11/1/2007 to 12/31/2007.

Appendix B, Page 2 of 2
Southern California Edison Company
Catalina Island Water System

Amortization of Deferred Revenues

Year 2007 Deferred Revenues

Calendar Year	Beginning Balance	Interest	Deferred Payment	Ending Balance
2008	$ 194,937	$ -	$ 64,979	$ 129,958
2009	129,958	-	64,979	64,979
2010	64,979	-	64,979	-

Year 2008 Deferred Revenues

Calendar Year	Beginning Balance	Interest	Deferred Payment	Ending Balance
2009	$ 722,000	$ -	$ 361,000	$ 361,000
2010	361,000	$ -	361,000	-

Appendix C, Page 1 of 2

Schedule No. W-1
GENERAL METERED FRESH WATER SERVICE
Proposed for 2007

APPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

Quantity Rates:	Summer Season May through September		Winter Season October through April		
First 2,500 gallons, per 1,000 gallons ……	6.05	(I)	5.37	(I)	(C)
Between 2,501 and 10,000 gallons, per 1,000 gallons ……	16.23	(I)	12.29	(I)	(C)
Over 10,000 gallons, per 1,000 gallons ……	22.22		16.54		(N)

Service Charge:	Per Meter Per Month			
For 5/8 x 3/4-inch meters	22.32	(I)	22.32	(I)
For 3/4-inch meters	31.27	(I)	31.27	(I)
For 1-inch meters	40.22	(I)	40.22	(I)
For 1-1/2-inch meters	53.72	(I)	53.72	(I)
For 2-inch meters	71.63	(I)	71.63	(I)
For 3-inch meters	122.12	(I)	122.12	(I)
For 4-inch meters	166.15	(I)	166.15	(I)
For 6-inch meters	275.91	(I)	275.91	(I)
For 8-inch meters	410.40	(I)	410.40	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service which is added to the quantity charge computed at the Quantity Rates. (T)

SPECIAL CONDITION

Service to customers shall be on an annual basis only with an annual service charge equating to twelve times the monthly service charge, payable at the monthly service charged rates.

Appendix C, Page 2 of 2

Schedule No. W-1
GENERAL METERED FRESH WATER SERVICE
Proposed for 2008

APPLICABILITY

Applicable to all metered fresh water service.

TERRITORY

Santa Catalina Island, Los Angeles County.

RATES

Quantity Rates:	Summer Season May through September		Winter Season October through April		
First 2,500 gallons, per 1,000 gallons ……	7.82	(I)	6.96	(I)	(C)
Between 2,501 and 10,000 gallons, per 1,000 gallons ……	21.00	(I)	15.90	(I)	(C)
Over 10,000 gallons, per 1,000 gallons ……	28.74		21.41		(N)

Service Charge:	Per Meter Per Month			
For 5/8 x 3/4-inch meters	29.12	(I)	29.12	(I)
For 3/4-inch meters	40.80	(I)	40.80	(I)
For 1-inch meters	52.48	(I)	52.48	(I)
For 1-1/2-inch meters	70.10	(I)	70.10	(I)
For 2-inch meters	93.47	(I)	93.47	(I)
For 3-inch meters	196.57	(I)	196.57	(I)
For 4-inch meters	267.43	(I)	267.43	(I)
For 6-inch meters	444.10	(I)	444.10	(I)
For 8-inch meters	660.56	(I)	660.56	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service which is added to the quantity charge computed at the Quantity Rates. (T)

SPECIAL CONDITION

Service to customers shall be on an annual basis only with an annual service charge equating to twelve times the monthly service charge, payable at the monthly service charged rates.

Appendix D, Page 1 of 2

Comparison of Rates - 2007
For an average residential customer who consumes 3640 gallons per month

Service Charge

	Present Service Charge	2007 Service Charge	Percent Increase
For 5/8 x 3/4-inch meters	$ 8.10	$ 22.32	176%
For 3/4-inch meters	$ 8.10	$ 31.27	286%
For 1-inch meters	$ 14.60	$ 40.22	176%
For 1-1/2-inch meters	$ 19.50	$ 53.72	176%

Quantity Charge

Present Summer Quantity Charge	2007 Summer Quantity Charge	Percent Increase	Present Winter Quantity Charge	2007 Winter Quantity Charge	Percent Increase
$ 22.69	$ 33.63	48%	$ 17.18	$ 27.44	60%

Total Monthly Service and Quantity Charges

	Present Summer Total Charge	Proposed Summer Total Charge	Percent Increase	Present Winter Total Charge	Proposed Winter Total Charge	Percent Increase
For 5/8 x 3/4-inch meters	$ 30.79	$ 55.94	82%	$ 25.28	$ 49.75	97%
For 3/4-inch meters	$ 30.79	$ 64.90	111%	$ 25.28	$ 58.71	132%
For 1-inch meters	$ 37.29	$ 73.85	98%	$ 31.78	$ 67.66	113%
For 1-1/2-inch meters	$ 42.19	$ 87.35	107%	$ 36.68	$ 81.16	121%

Appendix D, Page 2 of 2

Comparison of Rates - 2008
For an average residential customer who consumes 3640 gallons per month

Service Charge

	2007 Service Charge	2008 Service Charge	Percent Increase
For 5/8 x 3/4-inch meters	$ 22.32	$ 29.12	30%
For 3/4-inch meters	$ 31.27	$ 40.80	30%
For 1-inch meters	$ 40.22	$ 52.48	30%
For 1-1/2-inch meters	$ 53.72	$ 70.10	30%

Quantity Charge

2007 Summer Quantity Charge	2008 Summer Quantity Charge	Percent Increase	2007 Winter Quantity Charge	2008 Winter Quantity Charge	Percent Increase
$ 33.63	$ 43.49	29%	$ 27.44	$ 35.53	29%

Total Monthly Service and Quantity Charges

	2007 Summer Total Charge	2008 Summer Total Charge	Percent Increase	2007 Winter Total Charge	2008 Winter Total Charge	Percent Increase
For 5/8 x 3/4-inch meters	$ 55.94	$ 72.61	30%	$ 49.75	$ 64.64	30%
For 3/4-inch meters	$ 64.90	$ 84.29	30%	$ 58.71	$ 76.33	30%
For 1-inch meters	$ 73.85	$ 95.97	30%	$ 67.66	$ 88.01	30%
For 1-1/2-inch meters	$ 87.35	$ 113.59	30%	$ 81.16	$ 105.62	30%

Appendix E, Page 1 of 2
Southern California Edison Company
Catalina Island Water System

Adopted Quanties
Test Year 2007

Total water sold, 1000 gallons		157,746
Total water produced, 1000 gallons		175,865
Total kWH		2,184,445
kWH/1000 gallons		12.42
Composite power factor ($/kWH)	$	0.12001

Meter connections

For 5/8 x 3/4-inch meters	1752
For 3/4-inch meters	0
For 1-inch meters	94
For 1-1/2-inch meters	38
For 2-inch meters	76
For 3-inch meters	3
For 4-inch meters	1
For 6-inch meters	0
For 8-inch meters	1
Total	1,965

Incomes Taxes

Income before Interest and Expense	$	1,425,139
Interest Expense	$	-
State Taxable Income	$	1,425,139
State Income Tax	$	96,669
Federal Taxable Income	$	1,299,156
Federal Income Tax	$	377,136
Total State and Federal Income Taxes	$	473,805

Appendix E, Page 2 of 2
Southern California Edison Company
Catalina Island Water System

Adopted Quanties
Test Year 2008

Total water sold, 1000 gallons		154,686
Total water produced, 1000 gallons		176,921
Total kWH		2,197,558
kWH/1000 gallons		12.42
Composite power factor ($/kWH)	$	0.12001

Meter connections

For 5/8 x 3/4-inch meters	1762
For 3/4-inch meters	0
For 1-inch meters	95
For 1-1/2-inch meters	38
For 2-inch meters	77
For 3-inch meters	3
For 4-inch meters	1
For 6-inch meters	0
For 8-inch meters	1
Total	1,977

Incomes Taxes

Income before Interest and Expense	$	1,351,946
Interest Expense	$	-
State Taxable Income	$	1,351,946
State Income Tax	$	90,875
Federal Taxable Income	$	1,232,434
Federal Income Tax	$	351,624
Total State and Federal Income Taxes	$	442,499