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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA**

In the matter of the Application)
of SOUTHERN CALIFORNIA WATER)
COMPANY (U 133 W) for an order)
pursuant to Public Utilities Code)
Sections 454 and 1001 et seq.)
to participate in the State Water)
Project and to recover all present)
and future costs under contract)
with the Central Coast Water)
Authority and other related costs)
to deliver water to its Santa)
Marta District)

APPLICATION

NO. 196 11007

**SOUTHERN CALIFORNIA WATER COMPANY'S APPLICATION
TO RECOVER THE COSTS OF PARTICIPATING IN THE
STATE WATER PROJECT**

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Southern California Water Company

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Application to the Public Utilities Commission of the State of California ("Commission").

I

STATEMENT OF RELIEF SOUGHT

Pursuant to Sections 454 and 1001 et seq. of the Public Utilities Code, Southern California Water Company ("SCWC") requests authority to increase rates in its Santa María District to recover its pro rata share of the costs of designing, constructing and operating the Coastal Branch of the State Water Project ("SWP"), and delivering its entitlement to 500 acre-feet per year ("AFY") of SWP water to its customers. Given the current overdraft of the Santa María Groundwater Basin -- SCWC's sole source of supply in its Santa María District -- SCWC has determined that participation in the Coastal Branch at this level

is appropriate and necessary for proper groundwater management.

Participation in the Coastal Branch will: 1) address the problem of overdraft in the Santa Maria Groundwater Basin; 2) help resolve water quality issues in the Santa Maria District; and 3) provide SCWC with the flexibility to import and wheel water in furtherance of efficient management. Participating in the Coastal Branch is a viable and cost-effective means for SCWC to obtain supplemental water to serve the customers in its Santa Maria District.

Bringing SWP water to the central coast of California requires an extension of the SWP's transportation facilities and the construction of new water treatment facilities. The California Department of Water Resources ("DWR") is constructing a pipeline and ancillary facilities known as the Coastal Branch Phase II -- only weeks away from completion and operation -- to carry SWP water from Devils Den in western Kern County to Vandenberg Air Force Base in northern Santa Barbara County. The Central Coast Water Authority ("CCWA") is constructing a water treatment plant and local facilities to distribute the water from the Coastal Branch to the local water purveyors, including SCWC. In turn, SCWC is building local transmission facilities to transport SWP water to its Santa Maria District customers.

¹At the 500 AFY level, SCWC's share of the Project is approximately 1.2%.

Given SCWC's minimal level of participation in the Project, the maximum annual revenue requirement needed for the 500 AFY entitlement is approximately \$800,000. By this Application, SCWC seeks to increase current rates (those expected to be in effect in January 1997 as a result of the pending general rate case) in the Santa Maria District, as follows: in 1997, the Service Charge would increase by \$2.15 or 23% per month (for 5/8" x 3/4" meter) and the Quantity Rate would increase by \$0.1043/Ccf or 13%. In 1998, the Service Charge would increase again by \$0.05 or 0.4%, while the Quantity Rate would increase by only \$0.0061 or less than 1%. Thus, a typical customer who uses 28 Ccf per month would experience a projected \$5.07 monthly increase from \$31.66 to \$36.73 in 1997, or 16% over current rates, and a \$0.22 monthly increase from \$36.73 to \$36.95 in 1998, or 0.6% over 1997 rates. SCWC also requests advice letter treatment of a related distribution project (the Nipomo turnout) for which the requisite construction permits are still pending.

II

JUSTIFICATION FOR PARTICIPATION IN THE COASTAL BRANCH
OF THE STATE WATER PROJECT

The Santa Maria District is comprised of five water systems that are not physically interconnected: Orcutt, Tanglewood, Lake Marie, Sisquoc and Nipomo. Four of the systems are located in Santa Barbara County (Orcutt, Tanglewood, Lake Marie and Sisquoc) and one is located in San Luis Obispo County (Nipomo). Water for the Santa Maria District is supplied by twenty-nine SCWC-owned wells that pump exclusively from the Santa Maria Groundwater Basin.²

SCWC faces the same water supply concerns that confront everyone who uses the Santa Maria Groundwater Basin -- the Basin is in overdraft. "Overdraft" is the condition that occurs when cumulative annual withdrawal of water by all groundwater users exceeds the recharge to the basin from all contributing sources after any temporary surplus has been exhausted. Reports prepared by DWR and other state and federal agencies consistently indicate that the Santa Maria Groundwater Basin is overdrafted by about 20,000 AFY. SCWC's share of the overdraft is approximately 6%,

²The Santa Maria Groundwater Basin is a fairly large alluvial basin in northern Santa Barbara County and southern San Luis Obispo County that is fed mainly by the Cuyama and Sisquoc Rivers. It is reported that the underlying aquifer extends about ten miles beneath the ocean and that there is general hydraulic continuity between all parts of the aquifer. Reports also suggest that water in storage in the aquifer is approximately two million acre-feet above an elevation of ten feet.

or 1,200 AFY.

If the overdraft of the Basin continues unabated, the likely consequences are seawater intrusion into the Basin, water quality degradation due to higher salinity, land subsidence, and higher costs of pumping. Thus, overdraft is a problem SCWC must address. Basin overdraft can be controlled with an adequate groundwater management plan, whether derived voluntarily³ or as the result of an adjudication.⁴ In either case, a necessary component of any groundwater management plan will be the importation of a supplemental source of water, and the Coastal Branch is a viable and cost-effective source of such supplemental water.

In addition to being part of the solution to the

³Groundwater management can be accomplished voluntarily pursuant to the Groundwater Management Act, also known as A.B. 3030. This legislation authorizes local agencies to enter into agreements to perform basin-by-basin groundwater management. In Santa Barbara County, both the City of Guadalupe and the City of Santa Maria have the power to independently adopt a groundwater management plan. SCWC, Guadalupe and Santa Maria have drafted an "Urban Purveyors Plan," which is likely to be adopted within the next twelve months. The benefit of an urban purveyors plan is that it would allow the urban purveyors with common interests to develop a management plan for the area in which they extract, serve and potentially bank water. By employing the powers extended to the local agencies and SCWC under A.B. 3030 and complimenting those powers with the traditional land use regulatory powers held by cities and counties, a strong management plan can be developed for the area.

⁴"Adjudication" is litigation in which a court determines the rights of various users to a given supply of groundwater. SCWC's experience suggests that such litigation is often lengthy, contentious and expensive to all parties involved. While few would argue with its benefits once the adjudication is finalized, it is almost uniformly viewed as the remedy of last resort.

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overdraft problem, importation of SWP water will provide SCWC with high quality water necessary to supplement, or in some areas supplant, the existing lesser quality water being pumped from the Basin. SCWC is currently experiencing water quality issues in the Santa Maria District. Several of the five systems have high nitrate levels, high TDS and excessive hardness. SWP water is of better quality than local water, and through banking or direct use in the Basin, importation of SWP water will help to improve the overall water quality in the Basin.

Participating in the Coastal Branch will also provide SCWC with the flexibility and capacity to wheel water, to the long-term benefit of its customers. The clear direction of water policy in California is to provide for the movement of large quantities of agricultural water from the Central Valley to municipal and industrial uses in urban areas. This ability to transfer water from one region to another is dependent upon the existence of adequate and available pipelines and facilities. Thus, in addition to the 500 AFY minimum annual entitlement to SWP water, SCWC gains capacity/access rights to the Coastal Branch. Given the contractual rights of other entities in the State Water Project and the Coastal Branch, it is highly unlikely that anyone other than a contracting party will be entitled to transfer or wheel water through the State Water Project and the Coastal Branch. Without access to the Coastal Branch, opportunities for less costly, high quality water will not be possible.

III

THE COASTAL BRANCH OF THE STATE WATER PROJECT

The SWP is one of the largest water supply projects undertaken in the history of water development. SWP water, which originates primarily north of the Sacramento-San Joaquin Delta, is transported from the Delta to serve water contractors in the San Francisco Bay area, the San Joaquin Valley and Southern California. The SWP encompasses a complex system of reservoirs, aqueducts, pumping plants, power plants, canals and tunnels owned and operated by DWR, including in-stream reservoirs in Northern California, the California Aqueduct (which extends 444 miles from the Sacramento River Delta to Lake Perris and includes numerous pumping stations and power plants), the North Bay and South Bay Aqueducts (which supply the San Francisco Bay area), and numerous off-stream and terminal reservoirs. All of the initially planned 642-mile aqueduct system has been completed but for the final component -- the Coastal Branch Phase II.

The California Legislature authorized the first SWP facilities in 1951. In 1963, the Santa Barbara County Flood Control and Water Conservation District ("SBCFCWCD") and the San Luis Obispo County Flood Control and Water Conservation District ("SLOCFCWCD") contracted with DWR for entitlements to water from the SWP (the "State Water Supply Contracts"). Between 1983 and 1989, SBCFCWCD assigned its State Water Supply Contract rights to local water purveyors and users in Santa Barbara County,

including SCWC.⁵

To make use of these contractual rights, the local purveyors needed facilities to transport and treat the SWP water. CCWA was created in August 1991 to facilitate the development of the necessary additional facilities. Beginning in August 1991, certain holders of entitlements from SBCFCWCD, including SCWC, transferred their rights to CCWA pursuant to Water Supply Agreements. The Water Supply Agreements assign the local purveyors' contractual rights to SWP water to CCWA, provide for the delivery of SWP water by CCWA to the local purveyors, and provide for payments by the local purveyors to CCWA to cover the costs of delivering treated SWP water.

Responsibility for the financing, design, construction, operation and maintenance of the facilities necessary to bring potable SWP water to San Luis Obispo and Santa Barbara Counties has been divided between DWR and CCWA. DWR is responsible for the transportation facilities, which include an underground pipeline and ancillary facilities known as the Coastal Branch Phase II. CCWA is responsible for a water treatment plant and some local distribution facilities.

The Coastal Branch Phase II includes approximately 102 miles of buried pipeline, three pumping plants, three storage

⁵SCWC purchased an entitlement to 3,000 AFY of SWP water in 1986. SCWC retained that entitlement until this year, when it sold 2,500 AFY of its entitlement to Goleta Water District for cost.

tanks and the modification of the Cuesta Tunnel.⁶ The pipeline narrows from 57 inches in diameter at its origin near Devils Den in Kern County, to 42 inches in diameter at its terminus near Tank 5 on Vandenberg Air Force Base in Santa Barbara County, and has a total design capacity of 46,210 AFY in the vicinity of SCWC's turnout. Devils Den, Bluestone and Polonio Pass pumping plants are the three 8.1 megawatt pumping plants that will lift the water approximately 1,500 feet from Devils Den over Polonio Pass. They are located in northwest Kern County. DWR's project also includes three storage tanks that are located along the pipeline. Tank 1 is located at the Polonio Pass Water Treatment Plant; Tank 2 is located just northeast of the Salinas River; and Tank 5 is on Vandenberg Air Force Base.

CCWA's Polonio Pass Water Treatment Plant ("PPWTP"), located along with DWR's Tank 1 in northern San Luis Obispo County on Route 46, about 30 miles east of Paso Robles, will have the capacity to treat 43 million gallons of water per day. SCWC's pipeline turnout in Santa Barbara County, located near the intersection of Black and Dutard Roads north of Highway 1, is one of CCWA's local distribution facilities. These turnout facilities will be owned, operated and maintained by CCWA.⁷

⁶SCWC's share (1.28%) of the capital costs of DWR's pipeline is approximately \$5.3 million. On an annual basis, SCWC's share (1.28%) of DWR's fixed and variable costs, including capital costs, will be approximately \$370,000.

⁷SCWC's share (1.14%) of the capital costs of the water treatment plant is approximately \$570,000. The cost of SCWC's turnout in Santa Barbara County is approximately \$385,460. In
(continued...)

SCWC plans to construct local facilities to transport SWP water from the DWR pipeline to SCWC's existing facilities. Initially, SCWC will receive its 500 AFY entitlement at two different locations. Approximately 200 AFY of SWP water will be delivered to the Tanglewood system through facilities that SCWC will construct to connect its turnout on the DWR pipeline to existing distribution facilities in the Tanglewood system. SCWC will receive the remaining 300 AFY of its SWP entitlement through an existing interconnection between the City of Santa Maria and SCWC's Orcutt system. A booster pump station will be constructed at this interconnection to overcome hydraulic gradient differences between the two systems. In addition to these facilities in Santa Barbara County, SCWC is planning two interconnections with the Coastal Branch in San Luis Obispo County, one at Orchard Road in the Nipomo system and one in the Edna Road system of SCWC's Los Osos District.⁸

While SWP water will initially be delivered to SCWC's Tanglewood and Orcutt systems, all customers in the Santa Maria

⁷(...continued)

addition, on an annual basis, SCWC's share (1.14%) of CCWA's fixed and variable costs (not including these capital costs, which have already been paid) will be approximately \$70,000.

⁸The approximate cost of SCWC's distribution facilities in the Santa Maria District is \$656,500. SCWC is not seeking to recover the estimated \$396,000 cost of the Los Osos District Edna Road facilities in this Application, but rather will seek such recovery at a later date. Information on the Edna Road facilities is provided in this Application in order to present the total cost of SCWC's participation in the Coastal Branch Project. Moreover, advice letter treatment is requested for the \$266,000 Nipomo Turnout facilities.

District will benefit from SCWC's efforts to redress Basin overdraft. To begin, importing water will help maintain the existing water level in the Basin. Overdrafting of the Basin results in a lower water level, which in turn results in higher pumping costs that are passed on to all customers. Reducing the overdraft will also prevent the damaging effects of seawater intrusion and land subsidence throughout the Santa Maria Valley, to everyone's benefit. Further, as the overdraft is reduced, groundwater quality should improve. SCWC's customers will benefit from improved water quality, including spending less money treating hard water in their homes.

IV

PRUDENCE OF PARTICIPATION IN THE COASTAL BRANCH

As detailed in the accompanying testimony of Messrs. Sadoris, Masnada, Slater and Stetson, SCWC's participation in the Coastal Branch at the level of 500 AFY is prudent for several reasons. First, it is clear that the Santa Maria Groundwater Basin -- SCWC's sole source of water supply in the Santa Maria District -- is in overdraft, and that the overdraft cannot be left unchecked. The eventual resolution of this overdraft condition will come from either voluntary groundwater management or adjudication. In either event, the importation of a supplemental supply of water will be required. Each of the water users in the Basin will ultimately have to bear their fair share of the cost of importing supplemental water to address the overdraft problem. SWP water is the least-cost source of such supplemental water.

Second, degradation of water quality in the Basin is one of the problematic side effects of overdraft. SCWC can deal with the problems of overdraft and water quality simultaneously by importing high quality SWP water to supplement the groundwater it pumps from the Santa Maria Groundwater Basin. However, participation in the Coastal Branch is necessary for SCWC to have access to this water.

Third, by becoming a participant in the Coastal Branch,

SCWC not only fulfills its obligation under any groundwater management plan to pay its share of the cost of importing supplemental water, it also acquires access to the emerging state-wide water market and the flexibility to import and wheel water. Access to cheaper or more abundant water will inure to the benefit of SCWC's customers.

Last, the costs that SCWC has incurred and will continue to incur as a result of participating in the Coastal Branch and delivering SWP water to its customers are just and reasonable. The facilities that comprise the Coastal Branch were designed and constructed, and will be operated in accordance with good engineering practices and at the lowest reasonable cost. DWR, CCWA and SCWC follow policies of selecting the lowest qualified bidder for construction projects to keep costs to a minimum. Costs are also being kept down by inter-agency oversight and SCWC monitoring.

V

RATEMAKING TREATMENT OF COSTS OF PARTICIPATION

The basic rates for the Santa Maria District were set by Decision 94-06-007, issued June 8, 1994, in Application No. 92-05-033, filed May 12, 1992. Since that decision, the Commission has authorized no further rate changes. However, there is a general rate case currently pending for the Santa Maria District. The Commission is expected to adopt on November 6, 1996 a settlement between SCWC and staff that will allow a rate increase effective on January 1, 1997.

The present and proposed rates for which approval is requested are attached as Exhibit A. The proposed tariff sheets are attached as Exhibit B. In sum, SCWC seeks to increase current rates in the Santa Maria District, as follows: in 1997, the Service Charge would increase by \$2.15 per month (for 5/8" x 3/4" meter) and the Quantity Rate would increase by \$0.1043/Ccf. In 1998, the Service Charge would increase again by \$0.05, while the Quantity Rate would increase by \$0.0061. Thus, a typical customer who uses 28 Ccf per month would experience a projected \$5.07 monthly increase in 1997, or 16% over current rates, and a \$0.22 monthly increase in 1998, or less than 1% over 1997 rates.

The costs for which SCWC seeks recovery through this rate increase are detailed in the accompanying testimony of Messrs. Saddoris, Masnada and Dell'Osa. Through October 1996,

SCWC has invested \$3,705,696 in the Project, including its share of the capital cost of CCWA's Polonio Pass Water Treatment Plant and the Tanglewood System turnout.⁹ SCWC was reimbursed \$1,227,232 this year by Goleta Water District when it sold 2,500 AFY of its SWP entitlement to Goleta Water District. In addition, SCWC is not seeking to recover over \$1 million of its expenditures, which will be borne by SCWC's shareholders. Thus, SCWC has included only \$1,443,052 of its expenditures for recovery in this Application.

SCWC has added an interest component to these direct Project costs. SCWC has been incurring these costs for the benefit of its customers since 1986, yet none of the financial carrying costs have been recovered through rates. Normally, costs of capital projects are reflected in rates through Construction Work in Process ("CWIP"), which is a component of rate base. Utilities that are not allowed CWIP in rate base are still allowed to recover their financial carrying costs through an allowance for funds used during construction ("AFUDC") or interest during construction ("IDC"). In a similar fashion, SCWC is proposing to add \$442,380 of interest to only those capital costs for which rate recovery is sought.

Additional sums will be expended during 1996 and 1997

⁹These costs comprise the following categories: retention fees; legal fees; CCWA and study costs; City of Lompoc costs; outside engineering fees; rate case costs; and miscellaneous other costs.

to build local SCWC distribution facilities, and over the life of the Project for DWR/CCWA operation, maintenance, and administration expenses. As mentioned above, the approximate cost of SCWC's distribution facilities in Santa Barbara and San Luis Obispo Counties is \$1,052,500. Over the life of the Project, SCWC's share of DWR's fixed and variable costs, including capital costs, will be approximately \$370,000 annually. SCWC's share of CCWA's fixed and variable costs will start at approximately \$70,000 annually.

SCWC requests that the DWR capital costs and the combined DWR/CCWA operation, maintenance and administration costs be treated as purchased water costs for ratemaking purposes, subject to full supply cost balancing account treatment. In 1997 -- the first full year of operation of the Project -- these costs will amount to 54% of the total revenue requirement. Purchased water cost treatment is consistent with the "pass through" treatment of SWP water in SCWC's other ratemaking districts. Further, full cost balancing account treatment, rather than incremental cost treatment, is appropriate for the Santa Maria District given the expectation that the supply mix will vary over time, often resulting in savings that should be passed on to SCWC's customers.

VI

FORMAL MATTERS AND PROCEDURAL REQUIREMENTS

This Application is brought pursuant to Sections 454 and 1001 et seq. of the California Public Utilities Code. SCWC's legal name is Southern California Water Company. Its address and principal place of business is:

630 East Foothill Blvd.
San Dimas, California 91773
Telephone: (909) 394-3600

Correspondence and communications in regard to this Application should be directed to:

Mr. Joseph F. Young
Vice President of Regulatory Affairs
Southern California Water Company

at the above address and telephone, with one copy of such correspondence to attorneys for SCWC:

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275 Battery Street, 26th Floor
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Attn: Patricia A. Schmiede, Esq.
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SCWC, a corporation organized under the laws of the State of California on December 31, 1929, is a public utility rendering water service in various areas in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara and Ventura, and electric service in the vicinity of Big Bear Lake in San Bernardino County.

SCWC's Restated Articles of Incorporation, as amended to December 15, 1992, were filed with the Commission on September 15, 1994, as an exhibit to Application No. 94-09-039.

SCWC's latest available Results of Operation for the Company overall, and for the Santa Maria District, are attached as Exhibit C.

No transactions requiring the reporting of a material financial interest, as defined in General Order No. 104-A, have occurred since the last Annual Report filed by SCWC. SCWC currently does not propose to become a party to any transaction requiring a report of such material financial interest.

For the Santa Maria District prior to 1983, SCWC computed depreciation for income tax computations for both recorded and ratemaking purposes utilizing accelerated depreciation on all qualifying properties and flowed-through all investment tax credits. The Commission granted rates effective January 1, 1983 that set rates on a normalized basis with respect to tax depreciation and investment tax credit. Proposed rates in this Application reflect normalization.

SCWC's most recent available Balance Sheet and Income Statement are attached as Exhibit D.

Within ten days of the filing of this Application, SCWC

will cause to be published, in a newspaper of general circulation in the area served, a notice of the general terms of the proposed increase. Proof of such publication will be filed with the Commission. In addition, within ten days of the filing of this Application, SCWC will mail a copy of the Application to the officers of political subdivisions listed in Exhibit E. Lastly, within 75 days of the filing of this Application, SCWC will provide to each customer of record the information required by Rule 24 of the Commission's Rules of Practice and Procedure.

VII

CONCLUSION AND PRAYER

Participating in the Coastal Branch of the State Water Project is necessary and in the best interests of ratepayers in SCWC's Santa Maria District. Participation in the Coastal Branch will: 1) address the problem of overdraft in the Santa Maria Groundwater Basin; 2) help resolve water quality issues in the Santa Maria District; and 3) provide SCWC with the flexibility to import and wheel water in furtherance of efficient management. Moreover, the costs of such participation are the lowest possible costs, and are reasonable.

WHEREFORE, Applicant Southern California Water Company prays that this Commission issue its order:

1. FINDING that SCWC's participation in the Coastal Branch of the State Water Project is reasonable and in the public interest;
2. FINDING that all costs of SCWC's participation in the Coastal Branch are reasonable and in the public interest, and are allowable for ratemaking purposes;
3. FINDING that the rates and rate treatment proposed herein are fair, just and reasonable;

4. FINDING that all costs billed by CCWA to SCWC be treated as purchased water costs for ratemaking purposes, subject to full cost balancing account treatment;

5. ORDERING that the rates proposed herein be made effective as requested in this Application; and

6. GRANTING such other relief as appropriate.

DATED: November 4, 1996

Respectfully submitted,

/s/ Joseph F. Young

Joseph F. Young
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