

Decision No. 5772A

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CITIZENS UTILITIES COMPANY OF)
CALIFORNIA, a corporation, for)
authority to increase its rates)
and charges for water service to)
Guerneville, Rio Nido, Guerne-)
wood Park, Northwood and Monte)
Rio and adjacent territory.)

Application No. 38662
(First Supplemental)

In the Matter of the Application)
of CITIZENS UTILITIES COMPANY OF)
CALIFORNIA, a corporation, for)
authority to increase its rates)
and charges for water service to)
the City of North Sacramento and)
adjacent territory.)

Application No. 38663
(First Supplemental)

FIRST SUPPLEMENTAL OPINION AND ORDER

By first supplemental applications in the above-entitled matters, filed September 25, 1958, Citizens Utilities Company of California seeks further increases in water rates, for water service rendered in its Guerneville and North Sacramento districts, in order to offset the federal income tax effect resulting from the utility's abandonment of the sum-of-the-years digits method of accelerated depreciation accounting for tax purposes.

The general subject of depreciation calculations for income tax and rate-fixing purposes as well as specific applications of such calculations, as respects applicant's operations, have been discussed in a number of this Commission's decisions affecting this utility's water department. These various discussions will not be repeated herein; but it is appropriate to observe that with respect to Guerneville and North Sacramento district operations, this Commission used the so-called "flow-through" method in determining the total of the utility's reasonable operating expenses for such

districts and that, thereby, the water users in these two districts have paid or are paying in water rates no more than their share of the actual income taxes paid by the utility. In so doing, this Commission stated¹ "We shall await a demonstration by applicant that it has in fact abandoned its current basis of computing taxes before applying any assumed different methods of tax computations pertaining to the test periods of 1957 and 1958 put before the Commission in this proceeding."

We believe that this point cannot more clearly be stated. Applicant, however, interprets it as referring only to its use of the "sum-of-the-years digits" method and apparently desires to overlook the plain fact that the crux of the entire matter lies in the basis of the computation--that is, the use of accelerated depreciation or the use of straight-line depreciation for tax purposes. It is a demonstration of the fact that applicant has abandoned accelerated depreciation which this Commission awaits. Such fact is susceptible of proof. Applicant has offered no such proof. Instead, it offers a "commitment",² couched in such terms as to be susceptible of a number of differing interpretations.

The Commission takes official notice of Decision No. 57177 in Application No. 39674, issued August 14, 1958, in which, among other things, applicant was ordered to forthwith apply to the Internal Revenue Service of the United States Treasury Department for authority to change its method of depreciation accounting from the sum-of-the-years digits method to the straight-line method and to notify this Commission by no later than December 10, 1958, with respect thereto. Further, the Commission takes official notice of applicant's reply thereto³ to the effect that it has not in fact

1 Decision No. 56345, in Applications Nos. 38662 and 38663.

2 Attached as an exhibit to each of the supplemental applications herein.

3 First supplemental application filed in Application No. 39674 on December 8, 1958.

been able to effectuate such changed method of depreciation accounting for tax purposes. Applicant's instant requests are premature, to say the least.

The appropriate computations of income tax in the Guerneville and North Sacramento districts has been the subject of full hearing. Until such time as applicant can offer proof that it is using the straight-line method of depreciation accounting for tax purposes, no useful purpose would be served by additional hearings herein. We find no present cause to reopen these proceedings and no cause to grant applicant's request; therefore,

IT IS ORDERED that the authority sought by the first supplemental applications herein is hereby denied.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 16th day of December, 1958.

Ernest Fox
 President

Robert L. ...

...

Theodore J. ...
 Commissioners