

Decision No. 75049

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)

SAN BERNARDINO WATER)
UTILITIES CORPORATION)

Application No. 50595
(Filed October 7, 1968)

for authority to increase rates)
charged for water service to offset)
Federal Income Tax Surcharge.)

O P I N I O N

Applicant San Bernardino Water Utilities Corporation seeks authority to increase its rates for general metered water service to offset the effect of the federal income tax surcharge. Applicant serves approximately 1,035 customers in and near the unincorporated communities of Verdemon and Muscoy, San Bernardino County.

The present rates, which became effective May 25, 1968, were authorized by Decision No. 74035, dated April 30, 1968, in Application No. 49466, after a comprehensive review of applicant's operations based upon evidence presented at public hearing. Subsequent to their establishment, a ten percent surcharge to federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge is retroactive for the full year 1968 and, unless extended, expires June 30, 1969.

The application shows that a 0.81 percent surcharge on bills computed under the rate schedule for general metered service will not exceed the amount required to offset the effect of the federal income tax surcharge and will not produce more net revenues than found reasonable by the Commission in establishing the present rates.

Applicant's proposed surcharge on its bills will offset only the future effect of the tax increase and is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

The billing at present rates for a monthly consumption of 2,300 cu. ft. amounts to \$7.65, the surcharge on such billing will amount to \$0.06, and the resulting total billing will amount to \$7.71.

Discussion

The courts have long held that income taxes must be recognized as operating expenses in setting rates for a regulated utility. This Commission historically has determined the amount of such income tax allowances based upon the tax rates and credits actually to be in effect. Thus, when the federal corporate tax rate was lowered to 48 percent from the former 52 percent, the lower tax rate was thereafter used in determining utilities' tax allowances for rate-making purposes. Similarly, when taxes are reduced because of the "investment tax credit", this saving is passed on to the customers in setting the utility's rates.

We now face the opposite situation, where the utility's tax liability will be greater than allowed for when present water rates were established. When those water rates have been determined as recently as the applicant's involved herein, it is apparent that the utility will not achieve the rate of return found reasonable without additional rate relief.

The order which follows provides for the expiration of the surcharge upon water bills when the federal tax surcharge expires.

Findings and Conclusions

The Commission finds that:

1. Subsequent to the recent establishment of water rates for applicant, there has been an increase in income tax rates.
2. Applicant is in need of additional revenues to offset the effect of the federal income tax surcharge.
3. The surcharge on water bills requested by applicant is designed to provide only sufficient additional revenue to offset the future effect of income tax rate increase which had not been enacted at the time the present water rates for metered service were established.
4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted and that a public hearing is not necessary.

Inasmuch as the increased income tax rates have been in effect for some time, the effective date of the order herein will be the date hereof.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant San Bernardino Water Utilities Corporation is authorized to file a revised Rate Schedule No. 1, Metered Service, which differs from the present rate schedule in that it includes the following special condition:

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"Until the 10 percent surcharge to federal income tax is removed, bills computed under the above tariff will be increased by 0.81 percent."

2. The tariff filing authorized herein shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 21
day of DECEMBER, 1968.

William Sproule J.
President

Augustan
A. P. Moussey
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.