

Decision No. 79850

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
VALLECITO WATER COMPANY for author-
ity to increase rates charged for
water service to offset the increase
in Property Taxes.

} Application No. 53073
} (Filed December 28, 1971)
}

O P I N I O N

Vallecito Water Company (applicant) is a public utility water corporation providing water to approximately 5,700 active service connections in Los Angeles County. Its business office is located in the City of Industry and is close to the center of its service area. By Decision No. 79381, dated November 23, 1971, in Application No. 52457, applicant was authorized to establish schedules of increased water rates which would provide it with net revenues of \$118,953 for a rate of return of 8.35 percent.

Applicant here seeks authority to effect a further increase in its water rates for general metered service to offset increases in property taxes which result from a revised assessment by the Los Angeles County Tax Assessor of applicant's properties. In recent years the Assessor has not assessed water utility plant offset by contributions in aid of construction and has not assessed utility plant financed by advances for construction on a full value basis. Effective July 1, 1971 utility plant offset by such contributions or advances was fully assessed and this had the effect of raising applicant's total assessment by 54.2 percent. The change in assessment procedure was known at the time of the hearing in Application No. 52457 but the dollar effect of the change in procedure could not be measured at that time. Neither applicant nor the Commission staff projected an estimated tax increase in their showings in Application No. 52457, nor was any such tax increase considered

in Decision No. 79381. Said decision considered a property tax expense of \$61,549, under the changed assessment the tax is \$87,184, a difference of \$25,635.

Applicant proposes a schedule of water rates which would increase its gross revenues by \$25,921. It asserts that as a result of such additional revenues the expense for franchise requirements will increase \$128 and uncollectibles expense will increase \$169 so that total additional expenses would amount to \$25,932.

The Commission staff has reviewed and has verified the data in this application as well as work papers. Its report is received in evidence herein as Exhibit No. 1. The report asserts that applicant's computations are reasonable except that the effect of recent changes in regulations affecting income taxes were not included in applicant's calculations. The 1971 Revenue Act, signed into law on December 10, 1971, made changes in regulations for computing income tax that have a substantial effect upon applicant. An investment tax credit of four percent for utilities was reinstated by said Act. The 1971 Revenue Act also had the effect of changing the Treasury Department's 1971 Asset Depreciation Range (ADR) regulations. In its report the staff applied the new income tax regulations to the results computed by applicant under the increased water rates. The results so modified show earnings and a rate of return in excess of that found to be reasonable in Decision No. 79381.

The staff's report contains a suggested schedule of increased water rates which would increase applicant's gross revenues by \$14,000. Table I below sets forth a comparison of the results of operations for a test year adopted in Decision No. 79381 with the results under proposed rates estimated by applicant, the results under applicant's proposed rates estimated by the staff, and the results under the staff's suggested rates.

TABLE I
ESTIMATED RESULTS OF OPERATION

<u>Item</u>	<u>Dec. 79381</u>	<u>App. Estimate</u>	<u>Staff Estimates</u>	
	<u>at</u> <u>Pres. Rates</u>	<u>at</u> <u>App. Rates</u>	<u>at</u> <u>App. Rates</u>	<u>at</u> <u>Staff Rates</u>
Revenues	\$ 593,100	\$ 619,021	\$ 619,021	\$ 607,100
Expense	410,220	436,152	436,152	436,152
Income Taxes	63,927	63,927	58,200	52,004
Total Expense	\$ 474,147	\$ 500,079	\$ 494,352	\$ 488,156
Net Income	\$ 118,953	\$ 118,942	\$ 124,669	\$ 118,944
Rate Base	\$1,424,800	\$1,424,800	\$1,424,800	\$1,424,800
Rate of Return	8.35%	8.35%	8.75%	8.35%

The change in the assessment of properties of applicant by the Los Angeles County Tax Assessor has the effect of increasing the taxes of applicant imposed by law. The 1971 Revenue Act has the effect of reducing the income taxes of applicant imposed by law. Both should be given consideration and we therefore adopt the results estimated by the staff.

The schedule of increased rates suggested by the staff in Exhibit No. 1 will provide applicant with additional gross revenues of \$14,000 which, considering the effects of the Revenue Act of 1971, will permit applicant to achieve net earnings of \$118,944 and a rate of return of 8.35 percent. Such earnings and rate of return applicant seeks under its proposed rates and said results are the same as found to be reasonable for applicant by the Commission in Decision No. 79381.

In determining this application to increase rates we give consideration to the Economic Stabilization Act of 1971 and to the regulations and guidelines issued by the Price Commission on January 13, 1972. The schedule of rates suggested by the staff, and which will be adopted and authorized herein, will provide applicant with additional revenues of \$14,000 which represents an increase in

gross revenues of 2.36 percent. The increased rates will add about 21 cents to typical customers' water bills. The proposed rates will not increase applicant's earnings or rate of return from those found to be reasonable by the Commission in establishing applicant's present schedule of rates. The additional earnings will do no more than to permit applicant to recover the dollar amount of increases in property taxes imposed by law and reflect income tax savings that result from the provisions of the Revenue Act of 1971.

We find that:

1. By Decision No. 79381, dated November 23, 1971, in Application No. 52457, the Commission approved and authorized a schedule of water rates for applicant which would provide it with earnings of \$118,953 and a rate of return of 8.35 percent based upon a test year of 1971.

2. Said earnings and rate of return were based upon expenses and income taxes that do not give effect to the current assessment by the Los Angeles County Tax Collector, and the property taxes resulting therefrom, nor to the provisions of the Revenue Act of 1971 prescribing regulations for the computation of federal income tax by public utilities.

3. The earnings of applicant at the rates authorized and approved in Decision No. 79381 when computed giving effect to the property taxes at the current tax rate on the current assessment by the Los Angeles County Tax Collector, and giving effect to the provisions of the Revenue Act of 1971 in the computation of income taxes will be less than the earnings found to be reasonable by the Commission in said Decision No. 79381, and to that extent such earnings are insufficient and the rates authorized in said decision are, and for the future will be, unreasonable.

4. The earnings of applicant under the increased rates proposed by applicant herein when computed giving effect to current property taxes and to current regulations governing the computation

of income taxes will be in excess of those found to be reasonable by the Commission in Decision No. 79381, and to that extent the increases that would result from the establishment of said proposed increased rates have not been justified.

5. The earnings of applicant under the increased rates suggested by the staff, and set forth in Appendix A attached hereto, when computed giving effect to current property taxes and to current regulations governing the computation of income taxes will be the same as those found to be reasonable by the Commission in Decision No. 79381, and to that extent the rates set forth in Appendix A are reasonable and the increases that will result from the establishment of said rates are justified.

6. Notice of the filing of this application was served by applicant in accordance with the Commission's procedural rules. Notice also appeared in the Commission's Daily Calendar, dated December 30, 1971. There are no protests.

We conclude that applicant should be authorized to file the schedule of general metered service rates set forth in Appendix A to become effective not earlier than four days after the date of filing and in all other respects the application herein should be denied. A public hearing is not necessary.

The Commission certifies that said increase is cost based and does not reflect future inflationary expectations; that the increase in rates is the minimum required to assure continued, adequate and safe service; that the increase in rates will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of this public utility; and that the evidence in this proceeding and described herein together with the evidence in Application No. 52457 described in Decision No. 79381, dated November 23, 1971 is sufficient evidence from which the foregoing may be determined.

O R D E R

IT IS ORDERED that Vallecito Water Company is authorized to file the revised schedule of general metered service rates attached to this order as Appendix A, and concurrently cancel its present Schedule No. 1, General Metered Service. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised Schedule 1 shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 28th
day of MARCH, 1972.

William Seperson Chairman
Alvin M. ...
James L. ...
... Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of the City of Industry, the community of Hacienda Heights, and vicinity, Los Angeles County.

RATES

		<u>Per Meter Per Month</u>	
		<u>Zone 1</u>	<u>Zone 2</u>
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 3.30	\$ 3.55 (I)
For 3/4-inch meter		3.60	3.90
For 1-inch meter		4.95	5.35
For 1 1/2-inch meter		6.80	7.30
For 2-inch meter		9.10	9.75
For 3-inch meter		16.75	18.00
For 4-inch meter		23.00	24.70
For 6-inch meter		38.00	N/A
For 8-inch meter		56.00	N/A
Quantity Rates:			
First 20,000 cu.ft., per 100 cu.ft.	\$.20	\$.24	
Over 20,000 cu.ft., per 100 cu.ft.154	.194	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

SPECIAL CONDITION

The boundaries of the zones are delineated on the tariff service area maps. Zone 1 includes areas generally lying below 700 feet elevation. Zone 2 includes areas generally above 700 feet elevation.

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