

ORIGINAL

Decision No. 85239

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of THE CAMPBELL WATER COMPANY, a  
corporation, for authority to  
increase its rates and charges  
for its water system serving the  
City of Campbell, City of San  
Jose and adjacent territory in  
Santa Clara County.

Application No. 54706

OPINION ON DENIAL OF PETITION TO  
REOPEN AND MODIFY DECISION NO. 83866

On July 3, 1975 applicant requested that it be authorized to increase its rates and charges for water service \$6,131 annually.

Applicant presented its showing in Application No. 54706 on the basis that the investment tax credit estimated for the test year 1974 would be flowed through to net income as a reduction in federal income taxes. Applicant now alleges it is not eligible to flow through the investment tax credit, and Decision No. 83866 may have jeopardized its ability to claim the investment tax credit on a normalized basis to the extent it applies other ratemaking treatment. This situation appears to have resulted from the failure of applicant's tax advisors to adequately advise it in 1971 of its election options under Internal Revenue Code Section 46(e).

Applicant now requests that its rates be fixed using normalization of the investment tax credit by having the proceeding in Application No. 54706 reopened and that Decision No. 83866 be so modified.

Decision No. 83866 authorized applicant to increase its rates and charges for water service. Applicant accepted the staff's estimates for the purposes of the proceeding. The staff estimated more revenue, expenses, net operating revenue, and rate base than applicant. Since the adopted staff's estimate of net operating revenue was higher than applicant's, applicant was authorized a greater revenue increase than was requested. However, the rates authorized were lower than those requested. Applicant argued for a rate of return on common equity of more than 11 percent in 1975 and proposed rates that would yield 8.7 percent rate of return and 11.5 percent return on common equity. The staff recommended a rate of return of 8.7 percent. We adopted as reasonable a rate of return of 8.9 percent which results in a return on common equity of 11.5 percent.

Decision No. 83866 does not discuss or make any determination of the basis on which applicant should pay its income taxes. Nevertheless, out of an abundance of caution we will clarify our holding in Decision No. 83866. We did not consider income tax treatment in Decision No. 83866 because it was not raised as an issue. Now that applicant has raised this as an issue, it is appropriate for this Commission to state that it has not made a "final determination" regarding applicant's available investment tax credit for the years 1972, 1973, and 1974, or for the benefits which may be available to applicant, applying liberalized depreciation on a normalized basis. As a further consideration we have recomputed applicant's results of operations for test year 1974 on the rate base normalization method for only<sup>1/</sup> the investment tax credit using the summary of earnings found in Exhibit B of applicant's petition to reopen. Under the rate base normalization method, applicant's rate of return would be 8.70 percent, .20 percent below the 8.90 percent authorized in Decision No. 83866, but well within the zone of reasonableness. We see no

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<sup>1/</sup> For this calculation under the rate base normalization method we have not included any benefits which may result from the use of liberalized depreciation.

reason to grant the requested rate increase of \$6,131 nor to reopen this matter for further hearings. However, applicant should include in its results of operations studies for any future rate proceeding the then unamortized investment credit available to it for the years 1972, 1973, 1974, and subsequent unamortized credits in the determination of its deferred investment credit reserve. Any differences between applicant and staff regarding the reasonableness of this or other tax estimates may then be determined.

Further Findings of Fact

1. We have not made a final determination of applicant's available investment credit in Decision No. 83866.
2. We have, as an alternative method, recomputed applicant's summary of earnings using the rate base normalization method as set forth in Exhibit B of applicant's petition to reopen and find that this computation will still yield a reasonable rate of return for test year 1974 operations without rate modification.
3. The rate of return of 8.70 percent is reasonable for test year 1974 operations.
4. No "final determination" regarding applicant's available investment credit for the years 1972, 1973, and 1974 is necessary or appropriate at this time.
5. No increase in rates is justified.

The Commission concludes that a final determination has not been made regarding applicant's 1974 test year investment credit treatment, and for the purpose of this petition we further conclude that reasonable results would still result if applicant's 1974 test year operations were computed on the rate base normalization method of treatment for the investment tax credit. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. The petition to reopen Decision No. 83866 is denied.
2. A rate increase based upon results of operations computed on a rate base normalization method for test year is not justified at this time.

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

Dated at San Francisco, California, this 16th  
day of DECEMBER, 1975.

*[Signature]*  
President  
*William J. Quinn*  
*Vernon L. Stetson*  
*[Signature]*  
*[Signature]*  
Commissioners