

Decision 87-12-028 December 9, 1987

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own)
motion into the methods to be utilized)
by the Commission to establish the)
proper level of expense for ratemaking)
purposes for public utilities and)
other regulated entities due to the)
changes resulting from the 1986 Tax)
Reform Act.)

I.86-11-019
(Filed November 14, 1986)

ORDER MODIFYING D.87-09-026

Decision 87-09-026 provides methods by which utilities may recover the federal tax imposed upon contributions in aid of construction. The Commission Advisory and Compliance Division (CACD) has brought to our attention certain omissions in the decision and CACD requests modification. CACD points out that the pre-tax rate of return associated with the statewide discount rate of 12%, which was set at 17% for tax year 1988 and beyond, was not set for tax year 1987. Because of the tax rate difference between 1987 and 1988 CACD recommends for 1987 a pre-tax rate of return of 18% which will result in a gross-up rate of 35%. CACD's request is reasonable and will be adopted.

Additionally, CACD points out that the decision does not clearly state that refundable advances for Method 2 should be refunded net of the tax gross-up. CACD would have us emphasize this clarification, which by this reference, we have done. ✓

San Gabriel Valley Water Company also petitioned for modification to require payment of interest on refunds only to the extent that funds advanced for applicable income taxes were actually available to the utility and to adopt a single interest rate to apply to such refunds. San Gabriel's request is denied. Its proposal regarding availability of funds would require effort and expense by the utilities and the Commission staff far beyond

any potential benefit; its proposal regarding interest rates runs counter to current Commission practice and would introduce speculation into an otherwise routine transaction.

Additional Finding of Fact

For those utilities using Method 5 and adopting a 12% discount rate the pre-tax rate of return for 1987 is 18%; for 1988 and beyond the pre-tax rate of return is 17%.

Conclusion of Law

Ordering Paragraph 3.a of D.87-09-026 should be amended to reflect the Additional Finding of Fact.

IT IS ORDERED that:

1. The second sentence in Ordering Paragraph 3.a in D.87-09-026 is deleted and the following sentence is inserted:

Respondents selecting 12% as a discount rate shall also use 17% as the pre-tax rate of return for 1988 and beyond in their Method 5 calculation; for 1987 the associated pre-tax rate of return is 18%.

2. In all other respects D.87-09-026 remains in full force and effect.

This order is effective today.

Dated December 9, 1987, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weiss, Executive Director

Decision 87 12 028 DEC 9 1987

ORIGINAL

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Additionally, CACD also points out that the decision does not clearly state that refundable advances for Method 2 should be refunded net of the tax gross-up. CACD would have us emphasize this clarification, which by this reference, we have done.

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