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Decision 92-07-085 July 22, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
Santa Paula Water Works, Ltd.)
(U 320 W) for Authority to Increase)
Rates as authorized by NOI 91-01-047.)

ORIGINAL
Application No. 91-03-026
(Filed March 11, 1991)

ORDER DENYING REHEARING

SANTA PAULA WATER WORKS, LTD. (Santa Paula) has filed an application for rehearing of Decision (D.) 92-04-031. We have considered all the allegations of error in the application and are of the opinion that error has not been clearly shown.

In D.92-04-031, we authorized an equity/debt ratio of 60/40% for Santa Paula, because its previous equity ratio of 69% was detrimental to the ratepayers and unjustified under current economic conditions and because, under the aegis of its parent, Santa Paula has credit access similar to that of Class A water utilities. Santa Paula's application contained five allegations of error related to this ratio, none of which shows any cause for rehearing.

First, Santa Paula argued that we erred in recognizing and considering current economic conditions without taking specific evidence to show that conditions had changed since the Central Basin decision (D.91-05-024), in which we approved a 69% ratio for Park. We do not believe it is necessary to take evidence on the changed economic environment, as evidence of that sort has been introduced in many proceedings before us over the intervening years, and as it is in any case a matter of common knowledge. Nor has Santa Paula suggested that it can bring evidence to any rehearing which will show that the economy has not changed in that period.

Santa Paula also alleged that we erred in issuing D.92-04-031 prior to the outcome of our Risk OII (I.90-11-033). If this argument were correct, then the entire proceeding, beginning

with the application filed by Santa Paula for authority to raise its rates, is useless. We do not believe that the completion of the Risk OII is required before we can issue any decisions in rate applications. If the outcome of the OII changes any of the bases upon which D.92-04-031 is founded, Santa Paula can file a petition for modification of D.92-04-031 in order to bring it in line with our decision on the OII.

Santa Paula also alleged in its application that we had misinterpreted its evidence on financial risk. However, we specifically noted Santa Paula's risk argument at p. 52 of D.92-04-031. We interpreted it exactly as Santa Paula has argued it should be interpreted, and we dismissed it as of less significance than it once had, given the changed economic conditions.

Santa Paula also alleged that we erred in comparing it to other Class A water utilities, citing the testimony of its witness, Thomas Zepp, concerning the behavior of other Class A utilities. Zepp alleged that certain of those utilities exceeded their approved equity ratios, he compared Santa Paula's ratio with some for other utilities which had been approved as long ago as 1982, and he made allegations about other utilities' performance in comparison to Santa Paula's. Some of this testimony we found irrelevant to the question of the appropriate ratio for Santa Paula at the current time; some of it ran contrary to the Division of Ratepayer Advocates' (DRA's) documentary testimony and was not itself supported by any documentation. We do not believe that Zepp's unsupported testimony was enough to overcome the documented testimony of DRA; consequently, we do not believe that it was error on our part to accept the comparisons DRA offered.

Finally, Santa Paula alleges that, because of its contract obligations, Park cannot recover the authorized return on equity (ROE) if it conforms to the equity ratio specified in D.92-04-031. DRA points out that, because the return on debt

fluctuates in inverse proportion to the ROE, the ratio allowed will not reduce Park's ability to earn its authorized ROE.

We believe that DRA is correct. Certainly the ROE is lower if the imputed equity ratio is lower. But, by the same token, the return on Santa Paula's debt is increased. The cost of capital rate is somewhat lower than the ROE rate, but the final rate of return (ROR) on a 60/40% equity to debt ratio is 11.55%. The ROR on an imputed 69/31% ratio is 11.6%, a difference of only .05%. Multiplied by Santa Paula's 1992 test year rate base, the total difference amounts to less than \$1800. Thus, even if Santa Paula's contractual obligations prevent it from lowering the equity ratio at this time, the company will still be earning a reasonable rate of return. This allegation does not show good cause for rehearing.

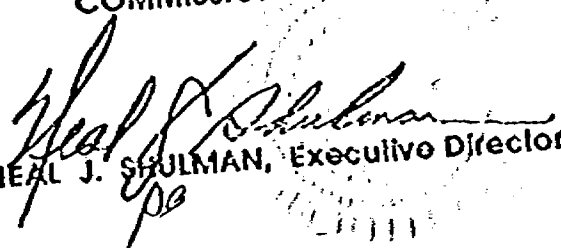
Therefore, IT IS ORDERED that Rehearing of D.92-04-031 is hereby denied.

This order is effective today.

Dated July 22, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director