

ORIGINAL

Decision 82 05 014 MAY - 4 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of the SOUTHERN CALIFORNIA WATER
COMPANY for an order authorizing
it to increase the rates for water
service in its Orange County
District.

Application 60291
(Filed February 24, 1981)

O'Melveny & Myers, by Guido R. Henry, Jr.,
Attorney at Law, for applicant.
Richard Rosenberg, Attorney at Law, for
the Commission staff.

FINAL OPINION

In Decision (D.) 93427 and Resolution W-2864, both dated August 18, 1981, Southern California Water Company (SoCal) was authorized to increase rates by \$681,300 and \$116,300 in its Orange County and Cowan Heights Districts, respectively, on an interim basis pending the Commission's decision in OII 24 regarding the ratemaking impact of the Economic Recovery Tax Act of 1981 (ERTA) which was signed into law on August 13, 1981. On December 15, 1981, the Commission issued D.93848 in OII 24 which ordered (p. 19) that: "Conventional normalization methods shall be used for purposes of the Economic Recovery Tax Act of 1981." The decision also concluded (p. 19) that: "The Act should not be implemented on a companywide basis when district rates are set."

The rates authorized in D.93427 and Resolution W-2864 were established on a flow-through basis for determining income tax expense; therefore, rates must now be adjusted to reflect conventional normalization of the Accelerated Cost Recovery System (ACRS) established by ERTA and the related Investment Tax Credit (ITC).

By ruling dated January 27, 1982, Administrative Law Judge Main directed:

1. SoCal to submit a late-filed exhibit, served on all appearances, showing the change in: revenue requirements from
 - a. Conventional normalization of the difference between tax depreciation and straight-line depreciation on ACRS property and
 - b. Conventional normalization of ITC on ACRS property. (Conventional normalization of ITC is to be based on Section 46.F.(1) of the Internal Revenue Code.)
2. The Commission staff to review the exhibit and working papers to determine if additional hearings are required.

SoCal's late-filed exhibit, which was received February 5, 1982, has been designated Exhibit LF-1. Exhibit LF-1 shows an additional revenue requirement of \$346,700 attributable to ERTA for estimated year 1982 for the "Orange County and Cowan Heights districts on a consolidated basis as authorized by D.93427." Our staff reviewed the exhibit and has determined that the additional revenue requirement for estimated year 1982 attributable to ERTA is \$326,500 instead of \$346,700. SoCal has examined the staff's calculations and accepts them.

Original

A.60291 ALJ/emk/nb *

Table 1, on the next page, brings together for estimated year 1982 the separate operating results for the Orange County and Cowan Heights districts, at interim authorized rates, as set forth in D.93427 and Resolution W-2864, respectively, and shows the effects of ERTA on the consolidated results. It also sets forth the adopted operating results at the final rates authorized by this decision.

In D.93427 and Resolution W-2864 a return on common stock equity of 14.35% and a rate of return of 10.69% on rate base for 1982 was found fair and reasonable. At the adopted operating results under interim rates (column (d)) the 9.46% rate of return on rate base is 1.23% below the authorized rate of return. The additional revenue requirement attributable to ERTA is \$326,500 (column (c) - column (d)) and represents 5.18% increase over revenues at interim rates. SoCal will be directed to mail the bill insert shown in Appendix D to its customers notifying them of this increased revenue requirement.

The \$326,500 additional revenue requirement should be spread into rates on a uniform percentage basis, as was done in the rate design adopted in D.93427. The rates prescribed in Appendix A to this decision reflect that rate spread. The rate increments for 1983 to offset operational and financial attrition are set forth in Appendix B to this decision. They are the same increments prescribed in D.93427 and Resolution W-2864.

TABLE 1

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
(Consolidated Orange County and Cowan Heights)

SUMMARY OF EARNINGS
Estimated Year 1982
(Dollars in Thousands)

Item	Interim Rates				
	Per	Per Res.		Authorized	
	D.93427	W-2864		Final Rates	
	(Orange Co. District)	(Cowan Heights)	Effect of ERTA Results	Adopted Results	
	(a)	(b)	(c)	(d)	(e)
Operating Revenues	\$ 5,686.6	\$614.9		\$ 6,301.5	\$ 6,628.0
Operating Expenses					
Purchased Water	1,053.7	253.9		1,307.6	1,307.6
Power for Pumping	651.2	87.9		739.1	739.1
Pump Tax	520.5	-		520.5	520.5
Uncollectibles	15.1	2.0		17.1	18.0
Street Franchise	78.7	5.6		84.3	88.7
All Other	1,686.2	163.1		1,849.3	1,849.3
Subtotal	4,005.4	512.5		4,517.9	4,523.2
Net Revenue Before Income					
Taxes	1,681.2	102.4	\$ -	1,783.6	2,104.8
CCFT	94.9	4.9	-	99.8	130.6
FIT Before ITC	376.9	17.9	87.3	482.1	615.7
ITC	(65.9)	(10.1)	76.0	-	-
FIT	311.0	7.8	163.3	482.1	615.7
Total Taxes on Income	405.9	12.7	163.3	581.9	746.3
Total Expenses	4,411.3	525.2	163.3	5,099.8	5,269.5
Net Revenues	1,275.3	89.7	(163.3)	1,201.7	1,358.5
Rate Base	11,930.2	839.2	(61.0)	12,708.4	12,708.4
Rate of Return	10.69%	10.69%		9.46%	10.69%

(Red Figure)

Findings of Fact

1. This final decision supplements D.93427 and Resolution W-2864 by reflecting the ratemaking impact of ERTA on SoCal's Orange County District. The adopted estimates in Table 1 of the impact of ERTA on net revenues, rate base, and revenue requirements properly reflect the consequences of ERTA and our decision in OII 24. The adopted tax calculations are contained in Appendix C to this decision.

2. The rate design employed in Appendixes A and B to this decision are reasonable.

3. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

4. A further public hearing is not necessary.

Conclusions of Law

1. SoCal should be authorized to file the rate schedules in Appendix A to this decision.

2. SoCal should be authorized to file rate schedules containing the step rate increases prescribed in Appendix B to this decision subject to the conditions set forth in the following order.

3. SoCal should be directed to mail a bill insert notice as shown in Appendix D to this decision.

4. Because of the immediate need for additional revenue, the following order should be effective today.

FINAL ORDER

IT IS ORDERED that:

1. Southern California Water Company (SoCal) is authorized to file for its Orange County District, effective today, the revised rate schedules in Appendix A. The filing shall comply with General Order Series 96. The effective date of the revised schedules shall be the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.
2. On or after November 15, 1982, SoCal is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases for 1983 attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Orange County District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1982, exceeds the lower of: (a) the rate of return found reasonable by the Commission for SoCal during the corresponding period in the then most recent rate decision, or (b) 10.69%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. The staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then

modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. Within 60 days after the effective date of this order SoCal shall mail to all its customers in this district the bill insert notice set out in Appendix D.

This order is effective today.

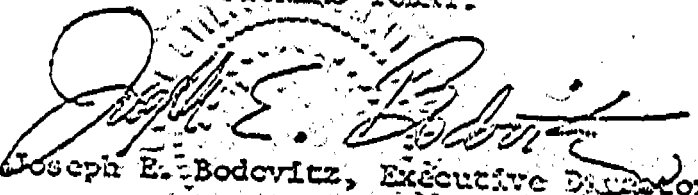
Dated May 4, 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I concur but I would limit the notice on the effect of the Economic Tax Recovery Act to a single sentence indicating that an identified portion of the recent rate increase is due to the federal tax legislation of 1981.

/s/ JOHN E. BRYSON
Commissioner

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


Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

Schedule No. OC-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Cypress, La Palma, Los Alamitos, Placentia, Santa Ana, Seal Beach, Stanton and Yorba Linda and vicinity, Orange County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 300 cubic feet, per 100 cu.ft.	\$ 0.320	(I)
Over 300 cubic feet, per 100 cu.ft.	0.404	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.00	(I)
For 3/4-inch meter	5.00	
For 1-inch meter	7.75	
For 1 1/2-inch meter	11.00	
For 2-inch meter	18.00	
For 3-inch meter	22.00	
For 4-inch meter	48.00	
For 6-inch meter	73.00	
For 8-inch meter	121.00	
For 10-inch meter	175.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

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SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

Schedule No. OC-3M

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to irrigation service furnished on a metered basis to territory in this schedule.

TERRITORY

The incorporated City of Placentia.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
For all water delivered, per 100 cu.ft.	\$ 0.336	(I)
Annual Service Charge:		
For 2-inch meter or smaller	91.20	
For 3-inch meter	109.20	
For 4-inch meter	243.60	
For 6-inch meter	365.40	
For 8-inch meter	609.00	

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rate.

APPENDIX A

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SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Cowan Heights Service Area

Schedule No. Ch-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Cowan Ranch, Peacock Hills and vicinity, located two miles northeast of Tustin, Orange County.

RATES

Quantity Rates:

Per Meter
Per Month

First 300 cubic feet, per 100 cu.ft.	\$0.400	(I)
Over 300 cubic feet, per 100 cu.ft.	0.591	(I)

Service Charge:

For 5/8 x 3/4-inch meter.....	\$6.00	(I)
For 3/4-inch meter.....	8.40	
For 1-inch meter.....	10.50	
For 1-1/2 inch meter.....	13.70	
For 2-inch meter.....	21.00	
For 3-inch meter.....	36.00	
For 4-inch meter.....	47.00	(I)

The service charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

(END OF APPENDIX A)

APPENDIX B

Page 1

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. OC-1GENERAL METERED SERVICE

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would be in effect on that date.

Rates to be Effective
1-1-83

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$0.009
Over 300 cu.ft., per 100 cu.ft.	0.013

Service Charge:

For 5/8 x 3/4-inch meter	0.08
For 3/4-inch meter	0.20
For 1-inch meter	0.20
For 1 1/2-inch meter	0.30
For 2-inch meter	1.00
For 3-inch meter	1.00
For 4-inch meter	2.00
For 6-inch meter	2.00
For 8-inch meter	4.00
For 10-inch meter	5.00

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SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Orange County Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. OC-3M

METERED IRRIGATION SERVICE

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would be in effect on that date.

Rates to be Effective
1-1-83

Quantity Rates:

For all water delivered, per 100 cu.ft. \$0.010

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Page 3

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Cowan Heights Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. CH-1

GENERAL METERED SERVICE

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would be in effect on that date.

Rates to be Effective
1-1-83

Quantity Rates:

For all water delivered, per 100 cu.ft. \$0.004

(END OF APPENDIX B)

APPENDIX C

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
(Consolidated Orange County and Cowan Heights)

ADOPTED TAX CALCULATIONS

	<u>1982 Adopted Rates</u>	
	CCFT (A)	FIT (B)
	(Thousand of Dollars)	
Operating Revenue	\$ 6628.0	\$ 6628.0
O&M Expenses	3881.0	3881.0
Taxes Other than Income	212.2	212.2
CCFT	0.0	130.6
Subtotal	4093.2	4223.8
Deductions from Taxable Income		
Tax Depreciation	616.0	498.8
Interest	558.2	558.2
Preferred Stock Div. Credit	0.0	2.9
Subtotal Deductions	1174.2	1059.9
Net Taxable Income for CCFT	1360.6	
CCFT	130.6	
Total CCFT	130.6	
Net Taxable Income for FIT		1344.3
Federal Income Tax		618.4
Graduated Tax Adjustment		-2.7
Fed. Income Tax Before Adj.		615.7
Investment Tax Credit		0.0
Total FIT		615.7

(END OF APPENDIX C)

Bill Insert for SoCal Customers
(Orange County District)

N O T I C E

\$326,500 of the recent rate increase granted to Southern California Water Company for the Orange County District was made necessary by changes in tax laws proposed by the President and passed by Congress last year. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

For a more detailed explanation of this tax change, send a stamped self-addressed envelope to:

Consumer Affairs Branch
Public Utilities Commission
350 McAllister Street
San Francisco, CA 94102

(END OF APPENDIX D)

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In D.93427 and Resolution W-2864 a return on common stock equity of 14.35% and a rate of return of 10.69% on rate base for 1982 was found fair and reasonable. At the adopted operating results under interim rates (column (d)) the 9.46% rate of return on rate base is 1.23% below the authorized rate of return. The additional revenue requirement attributable to ERTA is \$326,500 (column (e) - column (d)) and represents 5.18% increase over revenues at interim rates. SoCal will be directed to mail the bill insert shown in Appendix D to its customers notifying them of this increased revenue requirement.

The \$326,500 additional revenue requirement should be spread into rates on a uniform percentage basis, as was done in the rate design adopted in D.93427. The rates prescribed in Appendix A to this decision reflect that rate spread. The rate increments for 1983 to offset operational and financial attrition are set forth in Appendix B to this decision. They are the same increments prescribed in D.93427 and Resolution W-2864.

modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. Within 60 days after the effective date of this order SoCal shall mail to all its customers in this district the bill insert notice set out in Appendix D.

This order is effective today.

Dated MAY 4 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

APPENDIX A

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Orange County District
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SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
Cowan Heights Service Area

AUTHORIZED INCREASE IN RATES TO SCHEDULE NO. CH-1

GENERAL METERED SERVICE

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Rates to be Effective
1-1-83

Quantity Rates:

For all water delivered, per 100 cu.ft. \$0.004

APPENDIX C

SOUTHERN CALIFORNIA WATER COMPANY
Orange County District
(Consolidated Orange County and Cowan Heights)

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Preferred Stock Div. Credit	0.0	2.9
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Federal Income Tax		618.4
Graduated Tax Adjustment		-2.7
Fed. Income Tax Before Adj.		615.7
Investment Tax Credit		0.0
Total FIT		615.7

APPENDIX D

Bill Insert for SoCal Customers
(Orange County District)

One item of expense included in the rate increase recently granted to SoCal for its Orange County District by the Public Utilities Commission, amounting to \$326,500, was attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future as a percent of your bill.