

ORIGINAL

Decision S2 06 014 JUN 2 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHWEST SUBURBAN WATER, a)
corporation, for an order author-)
izing it to increase rates)
charged for water service in)
the La Mirada District.)

Application 60295
(Filed February 25, 1981)

McCutchen, Doyle, Brown & Enersen,
by A. Crawford Green, Attorney
at Law, for applicant.
Richard Rosenberg, Attorney at Law,
for the Commission staff.

FINAL OPINION

In Decision (D.) 93539 dated September 15, 1981, Southwest Suburban Water (Southwest) was authorized to increase rates for water service by \$697,300 in its La Mirada District 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 wherein it was 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.93539 were established on a flow-through basis of determining income tax expense. Therefore, rates must now be adjusted to reflect conventional normalization by 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 Turkish directed:

1. Southwest to submit a late exhibit with full supporting working papers, 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 Internal Revenue Code Section 46.F(1).)
2. The Commission staff to review the exhibit and working papers to determine if additional hearings are required.

Southwest's late exhibit, which was received March 25, 1982, has been designated Exhibit LF-1. Although Exhibit LF-1 shows an additional revenue requirement of \$67,000 attributable to ERTA for estimated year 1982 for the La Mirada District, as authorized by D.93539, this figure is the result of arithmetic error and should instead be \$59,700. Southwest has examined the staff's calculations and is in agreement with them.

On January 27, 1982 Southwest filed Advice Letter 145 for a \$235,000 increase in revenues to offset certain operating expenses. This amount includes an adjustment of \$118,800 to make up for the undercollection in the volume-related balancing account at the time of interim D.93539 dated September 15, 1981. This adjustment is reflected in the rates appearing in Appendix A and will be in effect until January 1, 1983. The remainder is due to purchased water and power, postage, and increases in franchise fees and uncollectibles. The staff has reviewed these offsets and finds them reasonable. Inasmuch as this final opinion and order are being concurrently prepared, the requested offset will be included in this decision.

Table 1 sets forth the interim authorized rates as set forth in D.93539, the requested offset as contained in Advice Letter 145, and the effects of ERTA on those rates. It also sets forth the adopted operating results at the final rates authorized by this decision.

The additional revenue requirement attributable to ERTA (\$59,700) and the offset of Advice Letter 145 (\$235,000) is \$294,700, which represents an 8.92% increase over revenues at interim rates. Southwest will be directed to mail the bill insert shown in Appendix D to its customers, notifying them of this increased revenue requirement.

The \$294,700 additional revenue requirement should be spread into rates on a uniform percentage basis, as was done in the rate design adopted in D.93539. 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 and are to be added to the rates shown in Appendix A or whatever rates

TABLE 1

SOUTHWEST SUBURBAN WATER - LA MIRADA DISTRICT

SUMMARY OF EARNINGS
 Estimated Year 1982
 (Dollars in Thousands)

Item	Interim Rates			Authorized:
	Per D.93539: Adopted:	Effect: ERTA:	Advice: Letter: 145	Final Rates Adopted Results:
	(a)	(b)	(c)	(d)
Revenues	\$3,302.0			\$3,596.7
Operating Expenses				
Oper. & Maintenance	1,559.0		\$231.6*	1,790.6
Admin. & General	558.1	\$ 1.1	3.4	562.6
Depreciation	222.3			222.3
Taxes Other Than Income	104.8			104.8
Subtotal	2,444.2			2,680.3
Net Revenues before Income Taxes	857.8			916.4
CCFT	58.1	5.7		63.8
FIT	220.6	56.4		277.0
Total Taxes on Income	278.7			340.8
Net Revenue	579.1			575.6
Rate Base	4,903.0	(29.9)		4,873.1
Rate of Return	11.81%			11.81%

(Red Figure)

*Includes a \$118,800 volume-related balancing account adjustment to be in effect until January 1, 1983 which includes purchased power, pump tax, and purchased water expenses.

are in effect on January 1, 1983. Because the \$118,800 balancing account adjustment is due to end at the end of 1982, it is taken out of the quantity rates of Appendix B with a negative increase of \$0.021 for quantity rates over 300 cubic feet, per 100 cubic feet beginning January 1, 1983. The staff recalculated the attrition rate with the effect of ERTA in the same manner in which it was calculated in the interim decision. Operational attrition is 0.86% and financial attrition is the same 0.15% as in the interim decision. Thus, a 1.01% attrition allowance would provide an approximate increase in gross revenues of \$102,200.

Findings of Fact

1. This final decision supplements D.93539 by reflecting the ratemaking impact of ERTA on Southwest's La Mirada District as well as the offset revenue requirements as contained in Advice Letter 145. 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 designs 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. Southwest should be authorized to file the rate schedules in Appendix A to this decision.
2. Southwest 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. Southwest 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. Southwest Suburban Water (Southwest) is authorized to file for its La Mirada 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, Southwest 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 La Mirada 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 Southwest during the corresponding period in the then most recent rate decision, or (b) 11.81%. 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.

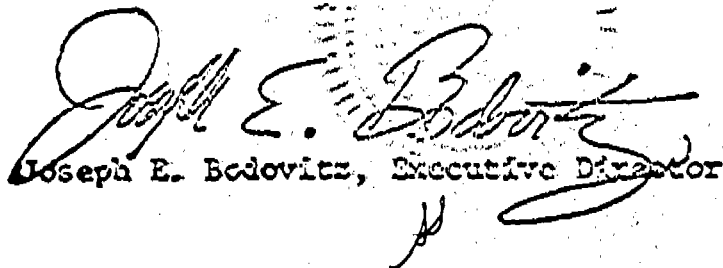
3. Within 60 days after the effective date of this order Southwest shall mail to all its customers in this district the bill insert notice set out in Appendix D.

This order is effective today.

Dated JUN 2 1982, at San Francisco, California.

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

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


Joseph E. Bodovitz, Executive Director

APPENDIX A

SOUTHWEST SUBURBAN WATER

Schedule No. LM-1

La Mirada Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of La Mirada, Norwalk, Cerritos, Buena Park, and vicinity, Los Angeles and Orange counties.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 6.25
For 3/4-inch meter	8.55
For 1-inch meter	11.50
For 1½-inch meter	15.40
For 2-inch meter	21.50
For 3-inch meter	39.00
For 4-inch meter	53.00
For 6-inch meter	87.00
For 8-inch meter	138.00

Quantity Rate:

For all water delivered per 100 cu.ft.

First 300 cu.ft. per month	\$ 0.381
Over 300 cu.ft. per month	0.555

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 Rate, for water used during the month.

(END OF APPENDIX A)

APPENDIX B

SOUTHWEST SUBURBAN WATER

La Mirada Tariff Area

AUTHORIZED INCREASES IN RATES

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
January 1, 1983

SCHEDULE NO. LM-1, General Metered Service

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$0.011	(I)
Over 300 cu.ft., per 100 cu.ft.	(0.021)	(R)

Service Charge:

For 5/8 x 3/4-inch meter	\$0.20	(I)
For 3/4-inch meter	0.30	
For 1-inch meter	0.35	
For 1½-inch meter	0.50	
For 2-inch meter	0.50	
For 3-inch meter	1.00	
For 4-inch meter	2.00	
For 6-inch meter	3.00	
For 8-inch meter	4.00	

SCHEDULE NO. 4, PRIVATE FIRE PROTECTION SERVICE

Rates:

For each inch of diameter of service connection, per month	\$0.12
--	--------

SCHEDULE NO. 4A, FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

Rates:

4" riser type with single 2½" outlet	\$0.10
6" riser type with steamer head	0.14
6" standard type	0.20

APPENDIX C

SOUTHWEST SUBURBAN WATER
La Mirada Tariff AreaAdopted Tax Calculation
Test Year 1982

	<u>Dollars in Thousands</u>	
	<u>CCFT</u>	<u>FIT</u>
Operating Revenues	\$3,596.7	\$3,596.7
Operating Expenses:		
Operation and Maintenance	1,790.6	1,790.6
Administrative and General	562.6	562.6
Taxes Other Than Income	104.8	104.8
CCFT	<u>0.0</u>	<u>63.8</u>
	2,458.0	2,521.8
Deductions from Taxable Income:		
Tax Depreciation	246.4	233.4
Dividend Exclusion	5.5	4.7
Interest	219.9	219.9
Other	<u>2.7</u>	<u>2.7</u>
Subtotal Deductions	474.5	460.7
Net Taxable Income (CCFT)	664.2	
CCFT @ 9.6%	63.8	
Net Taxable Income (FIT)		614.2
FIT @ 46%		282.5
Graduated Tax Adjustment		(3.9)
ITC		0.0
Deferred Tax Adjustment		(1.6)
Total FIT		277.0

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Southwest Suburban Water Customers
(La Mirada District)

N O T I C E

\$59,700 of the recent rate increase granted to Southwest Suburban Water for its La Mirada 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)

On January 27, 1982 Southwest filed Advice Letter 145 for a \$235,000 increase in revenues to offset certain operating expenses. This amount includes an adjustment of \$118,800 to make up for the undercollection in ^{volume related} the balancing account at the time of interim D.93539 dated September 15, 1981. This adjustment is reflected in the rates appearing in Appendix A and will be in effect until ^{January 1, 1983} ~~December 31, 1982~~. The remainder is due to purchased water and power, postage, and increases in franchise fees and uncollectibles. The staff has reviewed these offsets and finds them reasonable. Inasmuch as this final opinion and order are being concurrently prepared, the requested offset will be included in this decision.

Table 1 sets forth the interim authorized rates as set forth in D.93539, the requested offset as contained in Advice Letter 145, and the effects of ERTA on those rates. It also sets forth the adopted operating results at the final rates authorized by this decision.

The additional revenue requirement attributable to ERTA (\$59,700) and the offset of Advice Letter 145 (\$235,000) is \$294,700, which represents an 8.92% increase over revenues at interim rates. Southwest will be directed to mail the bill insert shown in Appendix D to its customers, notifying them of this increased revenue requirement.

The \$294,700 additional revenue requirement should be spread into rates on a uniform percentage basis, as was done in the rate design adopted in D.93539. 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 and are to be added to the rates shown in Appendix A or whatever rates

TABLE 1

SOUTHWEST SUBURBAN WATER - LA MIRADA DISTRICT

SUMMARY OF EARNINGS
 Estimated Year 1982
 (Dollars in Thousands)

Item	Interim Rates			Authorized:
	Per D.93539: Adopted:	Effect: of ERTA:	Advice: Letter 145:	Final Rates Adopted Results:
	(a)	(b)	(c)	(d)
Revenues	\$3,302.0			\$3,596.7
Operating Expenses				
Oper. & Maintenance	1,559.0		\$231.6*	1,790.6
Admin. & General	558.1	\$ 1.1	3.4	562.6
Depreciation	222.3			222.3
Taxes Other Than Income	104.8			104.8
Subtotal	2,444.2			2,680.3
Net Revenues before Income Taxes				
				857.8
				916.4
CCFT	58.1	5.7		63.8
FIT	220.6	56.4		277.0
Total Taxes on Income	278.7			340.8
Net Revenue	579.1			575.6
Rate Base	4,903.0	(29.9)		4,873.1
Rate of Return	11.81%			11.81%

(Red Figure)

*Includes a \$118,800, *volume related* balancing account adjustment to be in effect until January 1, 1983, *which includes purchased power, pump tax and purchased water expenses.*