

14-3 Orig

**ORIGINAL**

Decision 82 09 022 SEP 8 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
CP NATIONAL CORPORATION, a )  
California corporation for authority )  
to increase rates charged for water )  
service in its Susanville District. )

Application 82-04-27  
(Filed April 12, 1982)

O P I N I O N

## Summary

This decision authorizes CP National Corporation's Susanville Water District (Utility) to increase water rates to provide additional revenue of \$190,300 in 1982 (a 50% increase), and allows a step rate increase of \$202,900 to go into effect August 1, 1983. This \$202,900 is composed of two parts: (1) \$127,300 which is the amount required to return the gross revenue to the level authorized before 50% limitation and (2) \$75,600 which represents the deferred amount of \$127,300 plus a \$23,900 carrying charge amortized over a two year period. Utility requested an increase of \$364,410 for the year 1982, but after our staff's review Utility accepted staff's determination that an increase of \$317,600 is reasonable, based on a 1982 test year. Included in this \$317,600 increase is \$32,300 which is the incremental revenue effect of recent changes due to the Economic Recovery Tax Act of 1981 (ERTA). Utility is authorized a 12.26% return on its rate base.

Background

Utility filed an advice letter on November 16, 1981 requesting an annual increase in water rates for its Susanville District in the amount of \$420,522 (110.6%) based on a rate of return of 17.5% on common equity and a rate of return of 13% on rate base.

Because of the \$750,000 limitation on gross revenue that can be processed by advice letter (General Order 96-A, Section VI). Utility on December 11, 1981 revised its request for an increase of \$364,410 (95.8%) requesting a total gross revenue of \$744,617 for the year 1982.

An informal public meeting conducted by a staff representative was held at Susanville on March 25, 1982 at which about 100 interested persons attended and about 10 customers voiced strong opposition to the high percentage increase, objected to the 50% discount to Utility's employees, and stated that ratepayers should be given an opportunity to participate in public hearings before the Commission. On the basis of this protest, the advice letter was converted to an application and docketed on April 12, 1982.

The matter of employees' discounts is under Commission investigation in another proceeding (OII 104), which CP National is a respondent. In that proceeding, the Commission is inquiring into the reasonableness of the employee discount programs offered by certain energy, telephone and major water utilities subject to its jurisdiction. Upon completion of the Phase I hearings (which are limited to the energy utility discount), hearings on the telephone and water Utility discounts will be scheduled. Thereafter the Commission will analyze the evidence presented by the utilities, the Commission staff and other interested parties before deciding whether employee discounts should be retained, reduced, eliminated entirely, or adjusted for ratemaking purposes.

The review of Utility's operation by our staff indicates that Utility's rate of return at present rates is inadequate and Utility is in need of an immediate rate increase in the amount of \$317,600 to have opportunity to earn a reasonable rate of return, or 12.26%. After several meetings with the staff, Utility agreed with the staff-recommended rate of return and amount of increase. We believe that a public hearing will not contribute greatly to the disposition of this matter. We have limited travel funds. Since service is adequate and the employees' discount question is under review in another proceeding, we do not believe a public hearing in Susanville is necessary.

General Information

Utility owns and operates electric, gas, telephone, and water utilities in the States of California, Oregon, Nevada, Utah, New Mexico, and Arizona. The headquarters and general office is located in Concord, California where customer bills for all operations are prepared.

The Utility's Lassen Division includes the Susanville Electric and Water Districts.

The Susanville Water District serves about 2,700 customers in Susanville and nearby rural areas. Its service is adequate.

Economic Recovery Tax Act of 1981

ERTA made a number of changes in the federal income tax law that impacts the calculation of income tax expense for rate-making. It appears that use of flow-through methods for tax depreciation and investment tax credit (ITC) would make Utility ineligible to use accelerated cost recovery and to claim for tax purposes. Recognizing this, Decision 93848 (OII 24) was issued on December 15, 1981. In accordance with that order, and in accordance with the tax act, conventional normalization methods have been used in computing federal income tax expense for the test

period in this ratemaking proceeding. The incremental revenue requirement effect of ERTA is \$32,300. We will require Utility to notify its Susanville Water District customers of ERTA's effect on rates.

Rate of Return

Utility requested a return of 17.5% on common equity resulting in a 13.0% rate of return on rate base. Staff recommended a rate of return of 15.0% on common equity which results in a rate of return of 12.26% on rate base. We agree with the staff and adopt 15.0% for rate of return on equity and 12.26% rate of return on rate base. Utility accepted this return.

The adopted capital structure and capital cost for test year 1982 are as follows:

Long-term Debt	52.0%	10.48%	5.45%
Preferred Stock	7.0	9.43	0.66
Common Equity	<u>41.0</u>	15.00	<u>6.15</u>
	100.0%		12.26%

Deferral of Increase Over 50%

We have recently adopted a general policy guideline for major water utilities, which we shall apply to the Susanville Water District. The policy is to authorize rate increases not greater than 50% during any single year in order to mitigate the impact of a large increase. Without this guideline we would have authorized

an increase of \$317,600 (83.4%) in 1982. By applying this guideline, we will grant a \$190,300 increase in 1982 and defer \$127,300 over a two-year period plus carrying cost at the adopted rate of return on rate base, and authorize an increase of \$75,600 as a step rate increase on August 1, 1983. The calculations showing these adjustments are shown in Appendix C. We will reduce revenue by \$75,600 on August 1, 1985 at which time the deferred amount and related carrying charges have been amortized.

Tax Initiative Account

The amount of overcollection in the tax initiative balancing account in the Susanville Water District as of December 31, 1980 is \$5,383. We will amortize this amount over an 18-month period, so that customers get credit for the overcollection.

Summary of Earnings

Table I shows Utility's estimated Summaries of Earnings at present and proposed rates (original and revised) and staff's estimated at present rates and adopted rates. Adopted quantities are shown in Appendix D.

TABLE I

(Dollars in Thousands)

	<u>Utility Estimates</u>			<u>Staff</u>	
	<u>Present</u>	<u>Proposed Rates</u>		<u>Present</u>	<u>Adopted</u>
	<u>Rates</u>	<u>Original</u>	<u>Revised</u>	<u>Rates</u>	<u>Rates</u>
Operating Revenue	\$ 380.2	\$ 800.7	\$744.6	\$ 380.7	\$ 698.3
<u>Operating Expenses</u>					
Operation & Maintenance	191.0	199.2	193.4	187.7	189.4
Administrative & General	14.9	14.9	14.9	9.5	9.5
General Office Prorated	157.5	157.5	157.5	144.7	144.7
Depreciation Expense	43.8	43.8	43.8	43.0	43.0
Taxes Other Than Income	28.9	28.9	28.9	28.2	28.2
State Corporation Tax	(17.1)	23.0	18.1	(14.9)	15.5
Federal Income Tax	<u>(68.6)</u>	<u>105.1</u>	<u>84.2</u>	<u>(61.2)</u>	<u>70.1</u>
Total Operating Expense	350.4	572.4	540.8	337.0	500.4
Net Operating Rev.	29.8	228.3	203.8	43.7	197.9
Rate Base	1756.2	1756.2	1756.2	1614.1	1614.1
Rate of Return	1.70%	13.0%	11.60%	2.71%	12.26%

(Red Figure)

Rate Design

The cumulative increase in total revenue since January 1, 1976 has exceeded 25%; therefore, increases may be authorized for lifeline rates. We agree with the staff recommendation to increase lifeline rates by approximately the average percentage revenue increase for the the year 1982. We also agree with the staff recommendation to increase service charge revenues and quantity revenues by an equal percentage.

Balancing Account

Applicant proposes to establish a balancing account for the purchased power necessary to operate the water pumps for its Susanville Water District, and proposes a formula for maintenance of such balancing account. Utility, as well as other major water utilities, by letter of September 8, 1978 were informed of the procedure for maintaining purchased power balancing accounts which the Commission adopted on September 6, 1978. That procedure should be followed by Utility, and this point needs no further discussion.

Findings of Fact

1. A public hearing is not necessary.
2. Water quality and service in Susanville Water District are satisfactory.
3. Information shown in Table I properly reflect the consequences of ERTA and our decision in OII 24.



4. A rate of return of 15.0% on common equity will afford Utility an opportunity to earn a rate of return of 12.26% on rate base, and will be reasonable.

5. A revenue increase of \$317,600 (83.4%) for test year 1982 is required to produce a rate of return of 12.26%, based upon adopted results of operations for Susanville Water District.

6. It is reasonable to limit the increase in 1982 to 50% to mitigate the impact upon ratepayers. Thus, an increase in 1982 would be limited to \$190,300 (50%). The rate increases in August 1, 1983 include \$75,600 to provide additional revenue of \$127,300 over 2 years plus a \$23,900 carrying cost on the deferred amount.

7. It is reasonable to reduce revenue by \$75,600 on August 1, 1985 after the deferred amount and carrying costs have been fully amortized.

8. The increase in rates and charges authorized by this decision are justified, and are just and reasonable.

#### Conclusions of Law

1. The adopted rates in Appendix A are just, reasonable, and nondiscriminatory.

2. Utility should be authorized to file the rate schedules attached as Appendix A.

3. Because of the imminent need for additional revenue, the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, CP National Corporation is authorized to file for its Susanville Water District the revised rate schedules attached to this order as Appendix A, and concurrently cancel its present schedules for such service. This filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the day of filing. The revised schedules shall apply only to service rendered on and after their effective date.

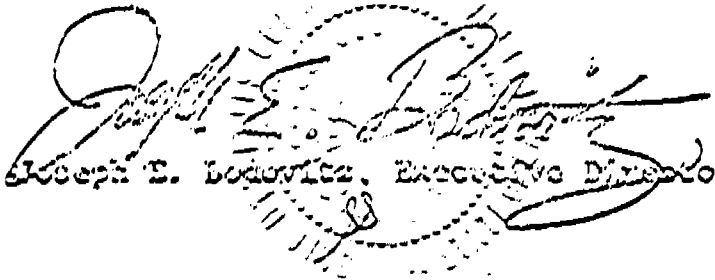
2. Within 45 days, CP National Corporation shall mail to all its Susanville Water District customers a bill insert notice set out in Appendix B.

This order is effective today.

Dated SEP 8 1982, at San Francisco, California.

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

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

  
Joseph E. Lodovitz, Executive Director

APPENDIX A  
Page 1

Schedule No. SU-1

Susanville District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Susanville and vicinity, Lassen County.

RATES

		<u>Per Meter</u>		<u>Per Month</u>	
				<u>From</u>	<u>After</u>
				<u>8/01/83</u>	<u>7/31/85</u>
Quantity Rates:					
	First 300 cu.ft., per 100...	\$	0.40	\$	0.542
	Over 300 cu.ft., per 100...		.51		0.692
					0.480
					0.625
Service Charge:					
For	5/8 x 3/4-inch meter....	\$	4.15	\$	5.60
For	3/4-inch meter....		6.10		8.30
For	1-inch meter....		8.50		11.50
For	1-1/2-inch meter....		15.00		20.50
For	2-inch meter....		21.00		29.00
For	3-inch meter....		35.00		47.50
For	4-inch meter....		51.00		69.00
For	6-inch meter....		90.00		122.00
For	8-inch meter....		146.00		198.00
For	10-inch meter....		196.00		266.00
					5.10
					7.50
					10.40
					18.00
					26.00
					43.00
					62.00
					110.00
					179.00
					240.00

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 Rates, for water used during the month.

APPENDIX A  
Page 2

Schedule No. SU-1

Susanville District Tariff Area

GENERAL METERED SERVICE

SPECIAL CONDITION

Meters may not be read for billings for the months of December, January, February, and March. When meters are not read, bills will be based on an estimate of customer's use, to be adjusted to actual use based on the April meter reading.

APPENDIX A

Page 3

Schedule No. SU-4

Susanville District Tariff Area

PRIVATE FIRE PROTECTION

APPLICABILITY

Applicable to all water service furnished for private fire protection.

TERRITORY

The City of Susanville and vicinity, Lassen County.

RATES

Service Charge:	<u>Per Month</u>		
		<u>From</u> 8/01/83 7/31/85	<u>After</u> 7/31/85
For each 1-1/2-inch connection...	\$ 7.50	\$10.20	\$ 9.20
For each 2-inch connection...	10.50	14.50	12.80
For each 3-inch connection...	15.80	21.50	19.30
For each 4-inch connection...	21.00	29.00	25.70
For each 6-inch connection...	31.50	43.00	39.00
For each 8-inch connection...	42.00	57.00	51.40
For each 10-inch connection...	52.00	71.00	63.60

SPECIAL CONDITION

1. The fire protection service connection will be installed by the utility at the cost of the applicant.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

APPENDIX A

Page 4

Schedule No. SU-4

Susanville District Tariff Area

PRIVATE FIRE PROTECTION

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water.
4. For water delivered for other than fire protection purposes, charges will be made under Schedule No. SU-1.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

(End of Appendix A)

APPENDIX B

N O T I C E

\$32,300 of the recent rate increase granted to CP National's Susanville Water 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 B)



APPENDIX C

	<u>Adopted</u>	<u>Adjustments</u> (Dollars in Thousands)	<u>Distribution</u>
	<u>1982</u>		
Present Rates	\$380.7		\$380.7
Adopted Rates	698.3	(127.3)	571.0
Increase	317.6 (83.4%)		190.3 (50.0%)
	<u>1983 and 1984</u>		
Authorized Rates	\$698.3		\$571.0
Adopted Rates	698.3	75.61/	773.9
Increase			202.9 (35.5%)

---

1/ Annual Payment (A) = Deferred Amt. (P) x Capital Recovery Factor

$$A = P \times \frac{i (1 + i)^n}{(1 + i)^n - 1}$$

where: i = 12.26%, return on rate base  
P = \$127.3, deferred amount  
n = 2, no. of years.

and:

$$A = \$75.6$$

(End of Appendix C)

APPENDIX D

Page 1

Adopted Quantities19821. Water Production

Wells	167.3 Kccf
Surface	975.4
Total	<u>1,142.7</u>

2. Purchased Power

Rates, Supplier - CP National	0.3437 kWh/Ccf
kWh	392,746 kWh
Cost (@ 1-1-82 rates)	\$ 36,000
Average Cost	\$0.09166/kWh

3. Ad Valorem Taxes

\$ 19,500

Tax Rates	4.7833%
-----------	---------

## 4. Net-to-Gross Multiplier

2.05964

## 5. Number of Services

<u>Meter Size</u>	<u>Services</u>
5/8" x 3/4"	2,440
1"	111
1-1/2"	24
2"	101
3"	4
4"	3
6"	6
Total	<u>2,689</u>

6. Metered Water SalesRangeUsage - Ccf

Block 1	0 - 3	169,490
Block 2	> 3	630,410
Total		<u>799,900</u>

APPENDIX D

Page 2

Adopted Quantities

<u>1. Water Production</u>	<u>No. of Services</u>	<u>Usage-KCcf</u>
Commercial	2,675	748.1
Industrial	5	13.5
Public Authority	9	38.3
	2,689	799.9
Unaccounted for Water @ 30%		342.8
Total Water Production		1,142.7

APPENDIX D  
Page 3

CP National Corporation  
Susanville Water Department  
Income Tax Calculations

	<u>1982</u> <u>Adopted Rates</u>	
	<u>CCFT</u>	<u>FIT</u>
<u>Operating Revenues</u>	\$698.3	\$698.3
<u>Expenses</u>		
O&M, A&G, and Taxes Other Than Income	371.8	371.8
<u>Deductions</u>		
Amortization of Limited Term Plant	10.3	10.3
Interest Expenses	87.5	87.5
Cost of Removal	1.8	1.8
Payroll Taxes Capitalized	1.1	1.1
	<hr/>	
Subtotal Deductions	100.7	100.7
Tax Depreciation	64.7	57.2
State Taxable Income	<u>161.1</u>	
CCFT @ 9.6%	\$ 15.5	15.5
Federal Taxable Income		<u>153.1</u>
FIT @ 46%		\$ 70.4
Graduated Tax Adjustment		(0.3)
Investment Tax Credit		-0-
Net FIT		\$ 70.1

(End of Appendix D)

an increase of \$317,600 (83.4%) in 1982. By applying this guideline, we will grant a \$190,300 increase in 1982 and defer \$127,300 over a two-year period plus carrying cost at the adopted rate of return on rate base, and authorize an increase of \$75,600 as a step rate increase on August 1, 1983. The calculations showing these adjustments are shown in Appendix C. We will reduce revenue by \$75,600 on August 1, 1985 at which time the deferred amount and related carrying ~~charges~~ have been amortized.

Tax Initiative Account

The amount of overcollection in the tax initiative balancing account in the Susanville Water District as of December 31, 1980 is \$5,383. We will amortize this amount over an 18-month period, so that customers get credit for the overcollection.