

ORIGINAL

Decision 83 01 016 JAN 12 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PARK WATER COMPANY, a)
California corporation, for)
Modification of Decision No.)
87019 concerning payment of)
refunds on Main Extension)
Contracts.)

Application 82-06-53
(Filed June 21, 1982)

Chris S. Rellas, Attorney at Law,
for applicant.
Richard Finnstrom, for the Commission
staff.

O P I N I O N

In Decision (D.) 87019 dated March 1, 1977 in Case (C.) 10111, the Commission ordered Park Water Company (Park) to pay all subdivision main extension refunds by April 1 of the year following the calendar year in which revenue from the extension is collected, and to pay interest at the rate of 7/12% per month for refund payments not made by April 1.

In D.82-01-62 dated January 19, 1982 in C.9902, the Commission adopted new uniform water main extension rules^{1/} which require annual refund payments of one-fortieth of amounts advanced to serve subdivisions, including costs of special facilities, eliminate utility-funded refunds on extensions to serve individuals, and establish mandatory refund payment dates on amounts advanced for subdivisions of June 30 or a date within six months of the contract anniversary date.

^{1/} Subsequent modifications of these rules are not pertinent to the issues raised in this proceeding.

In this application, Park seeks to modify D.87019 to change its refund date to conform with the June 30 date established in D.82-01-62. Park contends that (a) it does not recover its full cost of service during winter months due to the combination of low water use in winter months and to the Commission's adopted rate design; (b) its revenues and cash flow improve with higher summer water use; and (c) because of this pattern of revenue flow, it planned to make its 1982 advance refunds in July 1982 (based on 1981 revenues and including interest payments as ordered in D.87019). Park argues that modifying D.87019 to conform with the June 30 payment date in the new rule will help alleviate its cash flow problem and eliminate complaints (e.g. C.82-05-02 filed by Arthur H. Burnett) which are costly to defend and are disruptive to efficient utility operations.

Furthermore, Park argues that granting its request would reduce its rate base and consequently its revenue requirements, which in turn would mean lower rates would be charged to its customers. It bases this argument on the Commission's ratemaking procedures which establish rate base by averaging beginning and end-of-year base components, which in the case of refunds on advances implicitly assumes a June 30 payment date; but the Commission deviated from this method in D.90575 dated July 17, 1979 in Park's A.57904^{2/} by weighting refunds on a three-fourths year basis consistent with Park's payment of refunds on advances by April 1. Park argues that the Commission would revert to its traditional ratemaking formula if its refund payment date was changed to June 30.

^{2/} Park filed this application for an increase in rates in its Southern Division for a 1979 test year.

Park sought an ex parte decision in this proceeding or in the alternative consolidation of hearings in this application with those in C.82-05-02.

The latter complaint was consolidated for hearing with C.82-05-03, a complaint filed by Burnett against Park's subsidiary, Pomona Valley Water Company (Pomona) involving a late refund payment by Pomona.

Hearing

A separate hearing was held on this application in Los Angeles before Administrative Law Judge (ALJ) Levander on September 15, 1982, and the matter was submitted. Under Park's proposal, all of its refund contract holders would receive refund payments after the April 1 payment date established in D.87019. In accordance with the ALJ's requirement, Park served a copy of its application and notice of the hearing in this proceeding to all of its contract holders.

Daniel N. Conway, Park's vice president of revenue requirements, was the only witness testifying at the hearing. The Hydraulic Branch of the Commission staff requested denial of Park's proposal because (a) it would be inconsistent with Ordering Paragraph 3 of D.82-01-62 which states that presently effective water main extension contracts shall remain in effect; (b) it would set a precedent for other water utilities which would seek the same privilege; and (c) Park's present contract holders would lose three months of interest now provided for in D.87019 and they would be subject to an unnecessary three-month delay in receiving their refunds.

Letters of protest received from Burnett and from H. C. Davis were incorporated in the record as statements of position. Burnett states that he wants his refunds at a reasonable time to put those funds to his profitable use; the Commission held that refunds paid after the reasonable payment date of April 1 is equivalent to an involuntary interest-free loan to the utility from all holders of its contracts; a further three-month delay in payment of refunds would in effect alter the terms of those agreements to the considerable detriment of Park's contract holders. He cites the following excerpt from D.87019:

"While cash flow problems contribute to this condition, there is nothing in the record to justify these circumstances. These refunds are a known and readily estimable liability which the company must recognize and meet with proper accounting practices."
(Mimeo. page 5.)

He argues that since Park has not rectified its cash flow problems, the Commission must require that Park secure sufficient working capital to meet its commitments on a timely basis. He suggests that Park make refund payments 90 days after the end of a fiscal year ending between March and June. He also argues that there is absolutely no connection between the refund payment provisions of Park's old and new main extension rules.

Davis^{3/} argues that Park should set aside money each month for payment of its refunds on April 1; Park should invest that money and not use it for meeting operational expenses.

^{3/} Conway testified that Davis is not on its list of Park's main extension contract holders.

Park's Testimony

Conway sponsored Exhibit 2, a pro forma consolidated statement^{4/} of estimated monthly changes in its cash position for 1982, excluding amounts paid for utility plant additions or payments of principal on its short-term debt. He testified that Park's cumulative cash balance would be negative in April and May; Park wished to avoid borrowing to pay refunds of \$214,000 (including \$200,000 for refunds on California main extension contracts); and that Park's 1982 refunds of approximately \$69,000 were paid on July 31, 1982.

In Exhibit 4, Conway calculated that in D.90575 (a) Park's Southern Division 1979 rate base was increased by \$3,212^{5/} due to the three-quarter weighting of its refunds, based on April 1 payment of its refunds, and (b) at the authorized rate of return its 1979 revenue requirement was increased by \$651 as a consequence of that increase in rate base. He urges Commission consideration of the rate benefits to Park's ratepayers if it is allowed to change its refund payment date. He testified that Burnett is the only Park contract holder objecting to Park's proposal to change its refund date.

4/ The statement includes the operations of Park, its California subsidiaries Pomona, Santa Paula Water Works, Ltd., and Uehling Water Co., Inc., and its Montana utility subsidiary.

5/ Exhibit 3 shows (a) a staff estimate of advances for construction \$1,200 below Park's estimate in that proceeding; (b) a Park exhibit showing its weighted 1979 refunds of \$12,850 on a three-fourth year basis. The \$3,212 differential is consistent with that alternative weighting procedure. D.90575 does not discuss that minor difference in estimates.

Discussion

In the decision in C.82-05-02 and C.82-05-03, we limited the interest rate payable on overdue refunds to 7/12% per month; ordered Park to prepare exhibits in its rate cases to adjust its working cash allowances to reflect late payment of refunds; established a June 30 date for payment of Pomona's refunds based on the financial burden payment of such refunds had on Pomona; and established an interest rate of 7/12% per month on refunds paid by Pomona after June 30. In that decision, we noted that what is a reasonable time for paying refunds may vary among different utilities. In this decision we will consider whether to change the payment date on Park's overdue refunds.

Park calculated that the increase in its Southern Division revenue requirement due to the three-fourths weighting of its refunds amounted to \$651. However, that increase should be compared to the \$4,168,900 revenue requirement adopted in D.90575; it is a minuscule 0.0156% of Park's Southern Division 1979 revenue requirement.

The following table, developed from Park's 1981 annual report, illustrates that refunds are a minor element in meeting Park's utility obligations:

<u>Item</u>	<u>1981 Financial Data for Park</u> (Dollars in Thousands)
Operating Revenues	\$ 5,804
Net Utility Income	746
Net Income	441
<u>Advances for Construction</u>	
Beginning of Year	895
Additions	-
Refunds	(51)
Transfer to Contributions	(5)
End-of-Year Advances	839
Net Utility Plant End of Year	12,913
Total Capital a/	22,547 ^{b/}
Refunds as a Percent of Revenues	0.97% ^{b/}
End of Year Advances as a Percent of Net Utility Plant	6.57% ^{b/}
Advances as a Percentage of Total Capital	3.77% ^{b/}

a/ Capital stock and surplus plus debt plus advances.

b/ Calculated.

Park has not established a reasonable basis for modifying the April 1 date for payment of its refund obligations on its percentage of revenue contracts. However, the refund provisions established in D.87019 which are tied to revenues should not apply to Park's refunds made under new main extension rule contracts. Those contracts will contain established payment dates^{6/} for payment of refunds which are not tied to tract revenues.

^{6/} Park claims it has not and does not intend to pay refunds on contract anniversary dates and, therefore, refunds under its new main extension rule are due by June 30. However, its filed tariffs do not exclude refunds being made within six months of a contract anniversary date.

Findings of Fact

1. D.87019 established an April 1 date for payment of Park's refunds on its percentage of revenue main extension contracts. The decision provided for payment of interest on late payments.

2. Park seeks to revise its refund payment date to conform to the June 30 date required in its new main extension contracts. That date assumes Park will not pay refunds within six months of a contract anniversary date.

3. Owners of Park's main extension contracts would provide Park with interest-free funds for an additional three months if Park's proposal is adopted.

4. Park's cash flow position would be improved if its proposal is adopted. Park's revenue requirement in rate cases would be reduced by a de minimis amount if its proposal is adopted.

5. Park's refunds are a minor element in meeting its utility obligations. For 1982 the interest penalty on its late payment of refunds equals 2-1/3% of the refunds due on April 1. Adoption of Park's proposal would have reduced that penalty to 7/12% in 1982.

Conclusions of Law

1. Park has not established a reasonable basis for modifying the April 1 payment date for payment of its refund obligations on its percentage of revenue contracts.

2. The refund provisions, established in D.87019, should not apply to refunds made under Park's new main extension rule contracts, which contain established payment dates.

3. The relief requested in A.82-06-53 should be denied.

O R D E R

IT IS ORDERED that:

1. Park Water Company's (Park) request to modify the refund payment date on its percentage of revenue main extension contracts from the April 1 date established in D.87019 is denied.

2. The refund provisions established in D.87019 shall not apply to refunds made under Park's new main extension rule contracts.

This order becomes effective 30 days from today.

Dated JAN 12 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.

President

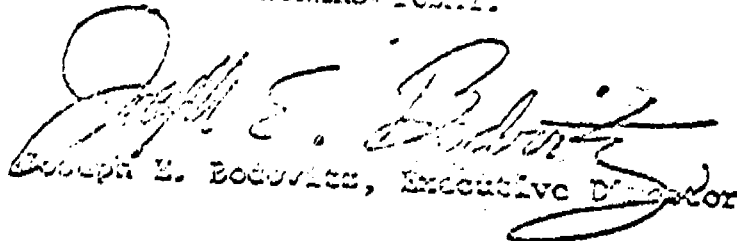
VICTOR CALVO

PRISCILLA C. GREW

DONALD VIAL

Commissioners

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


Joseph E. Bodovitz, Executive Director