

Decision 83 05 045 MAY 18 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of LAGUNA HILLS SANITATION, INC. )  
for an order authorizing an )  
increase in rates. )

Application 82-02-15  
(Filed February 8, 1982)

Application of LAGUNA HILLS )  
SANITATION INC. for modification )  
of Decision No. 91339. )

Application 82-11-40  
(Filed November 22, 1982)

(See Decision 82-12-066 for appearances.)

FINAL OPINION

In its petition filed February 22, 1983 Laguna Hills Sanitation, Inc. (LHSI) seeks to have Application (A.) 82-02-15 and A.82-11-40 consolidated and a final order issued in the consolidated applications. A.82-11-40 seeks to have Decision (D.) 91339 dated February 13, 1980 in A.59033, which established the surcharge method of financing the LHSI facilities constructed from funds obtained through the California Pollution Control Financing Authority (CPCFA), modified to conform to certain requirements of the Economic Recovery Tax Act of 1981 (ERTA). To meet the December 31, 1982 deadline under the ERTA transitional rule, we included in Interim D.82-12-066 issued in A.82-02-15, the following:

"(Conclusion of Law) '2. D.91339, supra, should now be deemed modified to the extent necessary to conform to ERTA. The specific modifications accomplishing that end will be forthcoming in a further Commission order.'

"(Ordering Paragraph) '3. D.91339 dated February 13, 1980 in A.59033 is deemed modified to the extent necessary to conform to the Economic Recovery Tax Act.'"

Interim D.82-12-066 required that the increased revenue requirement resulting from ERTA compliance, which was \$65,300 for test year 1983, be subject to possible refund "pending a determination of the manner, if any, in which revisions to the surcharge method of financing the CPCFA facilities or elimination of the surcharge altogether could reduce LHSI's revenue requirement and yet retain ERTA compliance." It was because of this pending determination that D.82-12-066 was made an interim decision.

Specific ratemaking determinations, as set forth in Finding 3 of Interim D.82-12-066, were deemed essential for ERTA compliance. It was stressed in D.83-03-029, which denied the petition filed by Professional Community Management, Inc. and Mutual Housing Corporations Inside Leisure World (PCM) for modification of Interim D.82-12-066, that the ratemaking determinations in Finding of Fact 3 would only be changed upon a showing that ERTA compliance would not be affected. In its petition PCM had assumed the Commission staff would sponsor some alternative ratemaking treatment. However, in its letter dated March 11, 1983 to PCM's attorney, our staff stated:

"It is the opinion of the Tax Unit that the methodology adopted in Decision 82-12-066 complies fully with ERTA, and that the impact on the ratepayers is such that it would be pointless for the staff to pursue the matter in further hearings. The staff will recommend to Administrative Law Judge Main that the decision be made final."

In Interim D.82-12-066 the total revenue requirement adopted for LHSI reflected both the operating expense and rate base effects of the CPCFA facilities. The adopted rate spread held the surcharge for the CPCFA facilities constant.

LHSI wants to retain the surcharge because of the indenture provisions applicable to the financing of the CPCFA facilities. To do this and conform with Interim D.82-12-066, it will be necessary to revise LHSI's tariff provisions for the Pollution Control Financing Surcharge established under D.91339. The basic changes required are:

1. Because of linkage between the surcharge and regular rates, any change in the level of the surcharge must be offset by an equal but opposite change in the level of regular rates.
2. Earnings on the investment tax credit must be dropped from the computations.

Apart from the ERTA matters, LHSI has brought to our attention that the adopted income tax computation contained in Appendix B to Interim D.82-12-066 employed, through an oversight, the standard \$20,300 graduated tax adjustment applicable to most California utilities instead of the \$8,100 graduated tax adjustment employed by both staff and applicant in the A.82-02-15 proceeding. The latter figure results from LHSI's participating in a consolidated federal income tax return filed by its parent, Laguna Hills Utility Company. Our staff confirms that this inaccuracy in federal income tax calculation resulted in a

\$25,100 understatement of LHSI's revenue requirement at the authorized rate of return. Our staff also confirms that, based upon the customer counts adopted in D.82-12-066, the following incremental increases in LHSI's tariffs will produce the required annual revenue increase of \$25,100:

	<u>Increase</u>
Tariff Schedule 1	
Unrestricted Family Service	9c
Restricted Family Service	7c
Per Month, Per Residential Dwelling Unit	
Tariff Schedule 2	
Basic Service Charge	9c
Charge Per 1,000 Gallons of Sewage	1c
Tariff Schedule 3	
(Per Acre-Foot of Reclaimed Water)	78c

LHSI will be authorized to file an advice letter implementing these increases at the time of its next effluent disposal cost adjustment, which is scheduled for July 1, 1983.

Findings of Fact

1. There is no feasible way to revise or eliminate the surcharge which will reduce LHSI's revenue requirement and yet retain ERTA compliance.
2. Because of the indenture provisions applicable to the financing of the CPCFA facilities, it is desirable to retain the Pollution Control Financing Surcharge in LHSI's tariffs. However, the tariff provisions need revision to:
  - a. Require that any change in the level of the surcharge must be offset by an equal but opposite change in the level of regular rates.
  - b. Drop the earnings on the investment tax credit from the computations.

3. The surcharge is to be structured as part of LHSI's total revenue requirement to which the rate determinations specified in Finding of Fact 3 of D.82-12-066 apply.

4. The adopted income tax computation in D.82-12-066 erroneously employed a \$20,300 instead of an \$8,100 graduated tax adjustment. This error caused the authorized revenues to be \$25,100 less than they should be to produce the rate of return authorized by the Commission.

5. Except to the extent the findings in Interim D.82-12-066 are inconsistent with the above findings, they are affirmed.

Conclusions of Law

1. Interim D.82-12-066 ordered that D.91339 be deemed modified to whatever extent necessary to conform to ERTA. Specifically, the modifications should include rendering inoperative any portions of D.91339 that are inconsistent with Findings 2 and 3 above.

2. The rates authorized by Interim D.82-12-066 should no longer be subject to possible refund and reduction.

3. LHSI should be authorized to revise its tariff provisions for the Pollution Control Financing Surcharge as prescribed in Finding 2 above.

4. LHSI should be authorized to increase its rates to offset a \$25,100 understatement in the authorized revenue requirement.

5. Except to the extent the findings of fact and conclusions of law in Interim D.82-12-066 are inconsistent with this final decision, they should be affirmed.

FINAL ORDER

IT IS ORDERED that:

1. To the extent D.91339 is inconsistent with Findings 2 and 3 of this decision or is otherwise inconsistent with either this decision or Interim D.82-12-066, it is rendered inoperative. In all other respects D.91339 shall remain in full force and effect.

2. On or after the effective date of this decision, Laguna Hills Sanitation, Inc. (LHSI) is authorized to file, in conformity with General Order Series 96, revised tariff provisions for the Pollution Control Financing Surcharge consistent with Finding 2 of this decision.

3. The condition imposed on the rates authorized by Interim D.82-12-066 making them subject to possible refund and reduction is removed.

4. Consistent with Finding 4 and Conclusion 3 of this decision, LHSI is authorized to file, in conformity with General Order Series 96, revised rate schedules to include the incremental rate increases set forth on page 4 of this decision for implementation concurrently with its July 1, 1983 effluent disposal cost adjustment.

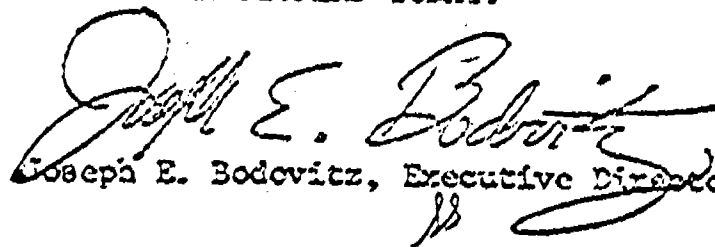
5. Interim D.82-12-066 shall remain in full force and effect, except to the extent it is inconsistent with this final decision.

This order becomes effective 30 days from today.

Dated MAY 18 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