

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3426
December 19, 1988

R E S O L U T I O N

(RES. W-3426) CITIZENS UTILITIES COMPANY OF CALIFORNIA
(CUCC), GUERNEVILLE WATER DISTRICT. ORDER REINSTATING
A 1984 STEP RATE INCREASE OF \$54,900 (6.5%), AUTHORIZING
A RATE SURCHARGE OF \$12,988 (1.27%), AND ESTABLISHING A
MEMORANDUM ACCOUNT PURSUANT TO DECISION 88-04-068.

By Advice Letter (AL) 217 (filed December 6, 1983 and refiled November 17, 1988) CUCC requests authority to implement a step rate increase of \$54,900 (6.5%) which was stayed by Resolution W-3166 on January 5, 1984. By AL 257 (filed November 17, 1988), CUCC also requests authority to raise its rates by \$12,988 (1.27%) to amortize the accumulated loss of revenues and interest from having had AL 217 stayed for five years, less the accumulated and continuing overcollection of revenues with interest resulting from its failure to account properly for the transfer of certain timber harvesting rights from 1971 to the present. AL's 217 and 257 are being filed pursuant to Decision (D) 88-04-068 as described below.

On April 27, 1988 the Commission issued D.88-04-068, its Second Interim Opinion in three consolidated proceedings. Order Instituting Investigation (OII) 83-11-09 is an investigation into the practices of CUCC and its operating districts and subsidiaries. Application (A) 60220 is the most recent general rate proceeding involving CUCC's Guerneville Water District. Case (C)83-12-07 is the complaint of Kathy Wyrick against CUCC and its subsidiaries.

OII 83-11-09 reopened A.60220 to investigate the appropriate ratemaking treatment for revenues realized by an affiliated company in harvesting timber from CUCC's Guerneville Water District lands; to consider the appropriate ratemaking treatment for any other illegal or imprudent actions of the types described in the OII; and to consider the appropriateness of granting the January 1, 1984 step increase authorized by D.82-03-023 in A.60220.

By D.82-03-023 CUCC was authorized a general rate increase in its Guerneville District. However, because of the size of the increase, portions were deferred to step rate increases in 1983 and 1984. D.82-03-023 set out the specific increases that would be required to collect the deferred revenues plus interest beginning January 1, 1983 and January 1, 1984. The 1983 step

rates were implemented, but CUCC's AL 217 which was to have established the authorized 1984 step increases was stayed by Resolution W-3166 until further order.

In D.88-04-068 the Commission found that CUCC, by failing to reflect the effect of its transfer of timber harvesting rights in its plant accounts, concealed those transactions from the Commission (Findings of Fact 16 and 17), and subsequently earned a return on the value of the timber rights in rate base while at the same time diverting the harvesting revenues to the benefit of the shareholders of its parent company (Finding of Fact 18). The decision set forth various remedies including accounting revisions, compliance reporting, and the following three ordering paragraphs involving rate changes:

"1. Citizens Utilities Company of California (CUCC) shall report to the Commission Advisory and Compliance Division (CACD) the original costs of the six watershed parcels from which CUCC severed timber harvesting rights, shall reduce Account 306 by those amounts, and shall reflect those reductions of rate base in an Advice Letter rate decrease filing.

"2. CUCC shall report to CACD the extent to which the Guerneville District adopted results of operations reflected excessive balances in Account 306 in all years since 1971, the adjustments to those results of operations required to reflect the reduced balances in Account 306, and the dollar affect of those adjustments in each year since 1971. CUCC shall also compute an interest component on the overcollection for each year, assuming an interest rate of 12%, compounded annually, and shall propose a method whereby the total of overcollections and interest components may be amortized through rates to the benefit of ratepayers. If CUCC and CACD can agree upon the appropriate dollar figure and the method of amortizing it, then CUCC shall file an Advice Letter to accomplish the required rate reduction. If no agreement can be reached within 120 days from the effective date of this order, then Water Utilities Branch shall petition the ALJ to set further hearings to take evidence on the issues involving the amortization of these overcollections."

and:

"7. The stay of CUCC's 1984 step rate increase ordered in Resolution W-3166 is hereby vacated; and CUCC is authorized to file an amended Advice Letter 217 in accordance with the instructions stated in the discussion."

The relevant discussion (page 38) states that the amended advice letter should:

"1. Recompute the January 1, 1984, rate increase in accordance with the method provided in D.82-03-023, Appendix E, and D.82-11-054 (the opinion after rehearing of D.82-03-023) to reflect interest at the rate of 12.04%* on the deferred revenue from March 2, 1982, to the proposed effective date of the amended tariffs, compounded annually;

"2. Reflect for the future the effect of the reductions in Account 306 required by our discussion of the timber rights issue;

"3. Propose rate changes to recover the 1984 deferred revenue increase with interest, as adjusted for the reduction in Account 306; and include CUCC's workpapers describing in detail each step.

"* 12.04% is the overall rate of return found reasonable in D.82-03-023 in A.60220, the last general rate proceeding for the Guerneville District. The same figure is used to compute the revenue requirement for each of the deferred rate increases for 1983 and 1984 (See Appendix E to D.82-03-023."

In a series of meetings, representatives of CUCC and the Water Utilities Branch of CACD reached agreement on the amounts, rates and methods needed to comply with the ordering paragraphs and discussion of D.88-04-063 cited above. In summary, the agreement includes the following:

1. Effective January 1, 1989 CUCC would implement the step rate increases filed in AL 217.
2. The accumulated revenue requirement reduction resulting from reducing rate base by the original costs of the six watershed parcels from which CUCC severed timber harvesting rights, beginning in 1971 as those timber harvesting revenues were realized and continuing to December 31, 1988, including interest at 12% per annum, is \$258,525.
3. The ongoing revenue requirement reduction resulting from reducing rate base by the original costs of the six watershed parcels from which CUCC severed timber harvesting rights is \$6,186 annually in 1989 and beyond, continuing until rates are redetermined in CUCC's next Guerneville District general rate proceeding.
4. The accumulated revenue undercollection resulting from the suspension of CUCC's 1984 step rate increase, beginning January 1, 1984 and continuing through December 31, 1988, including interest at 12.04% per annum, is \$307,188.
5. CUCC would establish a memorandum account with an initial balance of \$48,663 (\$307,188 less \$258,525) as of January 1, 1989, representing the unamortized balance due it from its customers as a result of the accumulated over- and undercollections noted in Items 2 and 4 above. The balance would decrease by \$6,186 annually (until Guerneville District's rates are redetermined in a general rate proceeding) representing the continuing timber harvesting revenue requirement reduction noted in Item 3 above, and would be further amortized by a 1.27% surcharge on Guerneville District customers' total water bills excluding PUC user fee surcharges. The unamortized balance would accrue interest at CUCC's then most recently authorized rate of return on rate base for the Guerneville District (currently 12.04%). The 1.27% surcharge has been derived as that needed for amortization over a three year period at present rates.

The Water Utilities Branch notes that CUOC expects to file a general rate increase application for the Guerneville District shortly for test year 1989. The resulting Commission decision would update the rate of return used in Item 5 above, the revised rates would correct the \$6,186 annual overcollection, and the revised general level of rates would change the amount brought in by the 1.27% surcharge thus altering the time required to amortize the memorandum account balance.

Taken together, CUOC's AL 217 and AL 257 implement this agreement and comply with D88-04-068. The Water Utilities Branch recommends that the Commission authorize CUOC to make AL 217 and AL 257 effective on January 1, 1989.

CUOC has given notice of these rate revisions by mailing copies of AL 217 and AL 257 to all parties of record in OII 83-11-09, A.60220, and C.83-12-07 on November 25, 1988. No protests have been received.

On October 28, 1988, PATRIOTS, an interested party in the consolidated proceedings, filed its Petition for Modification of Second Interim Order, Decision No. 88-04-068. PATRIOTS' petition, if granted, would require that the excess of timber harvesting revenues over the costs of the associated parcels be treated as income and returned to ratepayers. This would have the effect of greatly increasing the amount to be refunded. CUOC filed a timely protest to PATRIOTS' petition. Item 12 on the Commission's December 19, 1988 agenda is an order prepared by the ALJ Division denying the petition for modification.

FINDINGS

1. Ordering Paragraphs 1, 2 and 7 of D.88-04-068 directed CUCC to make certain accounting adjustments and to reflect the effects of those adjustments in rates, and authorized it to implement its delayed 1984 Guerneville District step rate increase. The decision required CUCC to work with CACD to develop the appropriate dollar amounts in accordance with guidance given in the decision.
2. CUCC and CACD's Water Utilities Branch have reached agreement on the appropriate amounts, rates and methods needed to comply with D.88-04-068 as follows:
 - a. The accumulated revenue requirement reduction resulting from reducing rate base by the original costs of the six watershed parcels from which CUCC severed timber harvesting rights, beginning in 1971 as those timber harvesting revenues were realized and continuing to December 31, 1988, including interest at 12% per annum, is \$258,525.
 - b. The ongoing revenue requirement reduction resulting from reducing rate base by the original costs of the six watershed parcels from which CUCC severed timber harvesting rights is \$6,186 annually in 1989 and beyond, continuing until rates are redetermined in CUCC's next Guerneville District general rate proceeding.
 - c. The accumulated revenue undercollection resulting from the suspension of CUCC's 1984 step rate increase, beginning January 1, 1984 and continuing through December 31, 1988, including interest at 12.04% per annum, is \$307,188.
 - d. CUCC should establish a memorandum account with an initial balance of \$48,663 as of January 1, 1989, representing the unamortized balance due it from its customers as a result of the accumulated over- and undercollections noted in 2.a. and 2.c. above. The balance should decrease by \$6,186 annually (until Guerneville District's rates are redetermined in a general rate proceeding) as a result of the continuing timber harvesting revenue requirement reduction noted in 2.b. above, and should be amortized by a 1.27% surcharge on Guerneville District customers' total water bills excluding FUC user fee surcharges. The unamortized balance should accrue interest at CUCC's authorized rate of return on rate base for the Guerneville District (currently 12.04%).
3. The 1.27% surcharge should be discontinued when the memorandum account balance has been fully amortized. In the event that CUCC's Guerneville District rates have not by that time been redetermined in a general rate proceeding, a revised surcredit will be needed to continue passing through to customers the revenue requirement reduction in 2.b. above until rates are redetermined.
4. AL 217 and AL 257 together implement the agreement between CUCC and CACD's Water Utilities Branch and comply with the rate revision requirements of D.88-04-068.

5. The rate changes authorized herein are justified, and the resulting rates are just and reasonable.

IT IS ORDERED that:

1. Citizens Utilities Company of California is authorized to make effective revised Rate Schedule GU-1A and new Rate Schedule GU-6 attached to Advice Letters 217 and 257 respectively. The effective date of the schedules shall be January 1, 1989 and they shall apply to service rendered on and after that date.
2. Citizens Utilities Company of California shall establish and maintain a memorandum account with an initial balance of \$48,663 as of January 1, 1989, representing the unamortized balance due it from its Guerneville District customers. The balance shall be decreased by \$6,186 annually until Guerneville District's rates are redetermined in a general rate proceeding, and shall be further amortized by the revenues collected under Rate Schedule GU-6 as authorized by Ordering Paragraph #1 above. The unamortized balance shall accrue interest at Citizens' authorized rate of return on rate base for the Guerneville District.
3. Citizens Utilities Company of California shall file an advice letter to discontinue Rate Schedule GU-1 when the memorandum account balance established by Ordering Paragraph #2 above has been amortized. In the event that Citizens' Guerneville District rates have not by that time been redetermined in a general rate proceeding, Citizens' advice letter shall establish a surcredit to continue passing through to customers, until rates are redetermined, the \$6,186 annual revenue requirement reduction associated with reducing rate base by the original costs of the six watershed parcels from which Citizens severed timber harvesting rights.
4. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following commissioners approved it:

STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN D. OHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director