

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

RESOLUTION NO. E-1956

Orig. and Copy

to Executive Director

UTILITIES DIVISION

BRANCH: Rate Design and Economics

## R E S O L U T I O N

DATE: December 30, 1982

Director

RETURN TO:

Numerical File

RATE DESIGN &amp; ECONOMICS BRANCH

Alphabetical File

ROOM 5188

Accounting Officer

**SUBJECT:** Southern California Water Company, Bear Valley Electric District. Order Authorizing Electric Rate Increase to Reflect Increase in Utility's Cost of Service Caused by the Economic Recovery Tax Act of 1981 Resulting in an Annual Electric Revenue Increase of \$150,000 or 2.5%

SOUTHERN CALIFORNIA WATER COMPANY (SCW), by Advice Letter No. 111-E, filed November 15, 1982, has requested authority under the provisions of Commission Resolution No. F-600, dated October 20, 1982, to file revised tariff schedules, applicable to its electric operations in Bear Valley, to reflect an increase in the cost of service caused by the Economic Recovery Tax Act of 1981 (ERTA), as set forth on Cal. P.U.C. Sheets Nos. 512-E and 513-E, under the following conditions:

1. The Economic Recovery Tax Act was signed into law on August 13, 1981, and it contains a number of changes in the tax laws which impact on all taxpayers.
2. Of importance to utilities are additions and changes to the Internal Revenue Code which: increase allowable tax depreciation by incorporating shorter tax lives for certain utility property; increase Investment Tax Credits (ITC) available for shorter lived property; and require normalization of the benefits for both Accelerated Cost Recovery System (ACRS) and ITC.
3. In Decision No. 93842, dated December 15, 1981, the Commission adopted conventional normalization as its ratemaking policy in compliance with ERTA. By Commission Resolution No. F-600, dated October 20, 1982, the Commission ordered all utilities to employ normalized accounting for calculating Federal income taxes in their books of account and for ratemaking purposes for post-1980 plant additions and that all investment tax credits be normalized. Each utility was ordered to submit calculations showing the effects of normalization for the test year 1981 and where it was determined that with tax normalization the utility's resultant earnings were less than the last authorized rate of return, to make an advice letter filing requesting a rate increase in an amount equal to the difference between flow-through taxes and ACRS and ITC normalized taxes. A copy of Resolution No. F-600 is included as Attachment A of this Resolution.
4. The ERTA causes an estimated increase of \$150,000 or 2.5% in SCW's revenues for its electric operations in Bear Valley. This increase in revenues was allocated on an equal cents per kWh basis to all customers, resulting in a rate increase of 0.22 cent per kWh. Calculations showing the development of this rate increase are shown as Attachment B to this Resolution.

5. A comparison of the present and proposed rates for domestic electric service is set forth below:

	Per Meter Per Month			Increase Percent
	Present Rates	Proposed Rates	Increase Amount	
<u>Domestic Service - Schedule No. DL</u>				
Basic Lifeline, First 240 kWh	5.717	5.937	0.22¢	3.8%
Over 240 kWh	7.207	7.427	0.22¢	3.1

6. The following table shows typical bills at various levels of present and proposed rates:

Monthly Usage (kWh)	C h a r g e a t		I n c r e a s e	
	Present Rates	Proposed Rates	Amount	Percent
240	\$13.72	\$14.25	\$0.53	3.9%
385 (Avg.)	10.45	10.77	0.32	3.1
1,000	68.49	70.70	2.21	3.2
2,000	140.56	144.97	4.41	3.1

7. Public notification of these rate revisions has been made by publishing an announcement in local newspapers in the same manner as would be done if the utility was filing a formal application.

8. The staff of the Utilities and Revenue Requirements Divisions have reviewed and evaluated the utility's advice letter and supporting workpapers and find that the requested rate increase is in conformance with the provisions of Commission Resolution No. F-600.

9. Approval is necessary no later than the December 15, 1982 Commission Conference in order to have the revised rates in effect no later than January 1, 1983, as required by the ERTA and by Commission Decision No. 93848, dated December 15, 1981, in O.I.I. No. 24.

10. Parties executing the agreements must have this authority prior to execution in December, 1982, an emergency justifying the inclusion of this item on the Commission's agenda without notice to the public.

11. We find that this rate increase is just and reasonable and is in conformance with the requirements of the Economic Recovery Tax Act of 1981; therefore, good cause appearing,

IT IS ORDERED that:

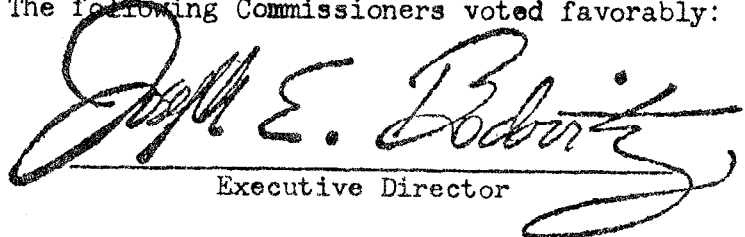
1. Authority is granted under Section 454 of the Public Utilities Code and under the provisions of Commission Resolution No. F-600 for Southern California Water Company to place the foregoing tariff sheets into effect on January 1, 1983, which constitutes more than regular statutory notice.

2. Southern California Water Company shall employ normalized accounting for Federal income taxes in its books of account and for ratemaking purposes for Accelerated Cost Recovery System property and related Investment Tax Credits.

3. The foregoing tariff sheets and advice letter shall be marked to show that they were approved for filing by Resolution No. E-1956 of the Public Utilities Commission of the State of California. The effective date of this Resolution is the date hereof.

I certify that this Resolution was introduced, approved and adopted at a regular conference of the Public Utilities Commission of the State of California on December 30, 1982. The following Commissioners voted favorably:

RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
Commissioners

  
Executive Director

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Copy for:

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Accounting Officer

RESOLUTION NO. F-600

REVENUE REQUIREMENTS DIVISION

BRANCH/SECTION: Financial Analysis

DATE: October 20, 1982

R E S O L U T I O N

**SUBJECT:** Immediate Action to be Taken by Utilities to Comply with Tax Normalization Provisions of the Economic Recovery Tax Act of 1981

**WHEREAS:**

1. Pursuant to the provisions of Section 168(e) of the Economic Recovery Tax Act of 1981 (ERTA), electric, gas, steam, pipeline, water, sewer, and telephone utilities are permitted to employ a means of accelerated tax depreciation on post-1980 property. This method of tax depreciation is known as Accelerated Cost Recovery System (ACRS). ERTA also provides for certain changes in accounting for investment tax credits (ITC).
2. In order to ensure the tax benefits of ACRS and ITC, the utilities in question should obtain a rate order effective subsequent to the enactment of ERTA, but no later than January 1, 1983, which requires use of the normalized method of accounting for federal income taxes in the books of account and for ratemaking purposes.
3. This Commission wishes to provide a means of qualifying all utilities under its jurisdiction for the benefits offered by ERTA. The method of qualification should be the swiftest and most efficient means permissible under ERTA.
4. While we could theoretically require each utility to file a rate application, conduct a hearing, and then issue an individual rate order, we find such a procedure to be costly and inefficient. Many small utilities in this state are eligible for ACRS. While some of these have recently completed, or are now in the process of having rate increase hearings, many have no intention of seeking changed rates before January 1, 1983. To impose on such utilities and their customers the requirements of full scale hearings in order to comply with ERTA is clearly undesirable.
5. There are some very small utilities that have been permitted to use straight-line depreciation for both ratemaking and tax purposes. This Resolution will not require any change in that practice, except that such utilities shall normalize all investment tax credits.

6. As an alternative to individual rate relief, we can require by Commission resolution that after the effective date of this Resolution, all utilities subject to our jurisdiction, other than those utilities referred to in Paragraph 5, shall calculate their federal income tax expense using a normalized method of accounting. This method would be immediately applicable to their current results of operations under existing rates. If a utility determines that such a method of calculating its cost of service results in an earnings rate lower than that last authorized, it should immediately request a rate increase in an amount sufficient to cover the added tax resulting from the use of ACRS and normalized ITC. If calculations indicate that no change in rates is required, even with a normalized method of accounting, then none should be requested.

7. The obvious advantage of this alternative commends its adoption. In the following order we shall require use of normalized tax accounting for all electric, gas, steam, pipeline, water, sewer, and telephone utilities, other than those referred to in Paragraph 5.

THEREFORE IT IS ORDERED, that

- (1) All electric, gas, steam, pipeline, water, sewer, and telephone utilities subject to the jurisdiction of this Commission, other than those referred to in Paragraph 5, are directed to employ normalized accounting for calculating federal income taxes in their books of accounts and for ratemaking purposes for post-1980 plant additions. All investment tax credits shall be normalized.
- (2) Any utility whose rates were set using straight-line depreciation for ratemaking and tax purposes shall normalize all investment tax credits.
- (3) Each utility now calculating its federal income taxes for ratemaking purposes on a flow-through basis shall immediately calculate its estimated earnings and rate of return for a 1981 test year under present rates with normalized tax depreciation and investment tax credits. The results of such calculations shall be forwarded to the Commission for review. If they show that even after normalization of federal income taxes a utility is earning its last authorized rate of return, no further action is required. If, on the other hand, the calculations show that with tax normalization the company's earnings are less than its last authorized rate of return, the company shall immediately file an Advice Letter requesting a rate increase in an amount equal to the difference between flow-through taxes, and ACRS and ITC normalized taxes.

- (4) The effective date of this Resolution is the date hereof.
- (5) The Executive Director is directed to serve a copy of this Resolution on each electric, gas, steam, pipeline, water, sewer, and telephone utility subject to the jurisdiction of this Commission. ✓

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular conference of the Public Utilities Commission of the State of California, held on October 20, 1982, the following Commissioners voting favorably thereon:

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

*Joseph E. Dobson*  
 Executive Director

SOUTHERN CALIFORNIA WATER COMPANY  
Bear Valley District

DEVELOPMENT OF REVENUE INCREASE  
TWELVE MONTHS ENDING 9-30-83

- (1) ERTA Gross Revenue Requirement                      \$150,000
- (2) Estimated kWh Sales                      68,375,972
- (3) =  $\frac{(1)}{(2)}$  = \$0.002194
- or    0.22 cent per kWh