DECISIONS OF

Pennsylvania Public Utility Commission

VOLUME 47

Reported by

NICHOLAS B. DOBOSH, *Attorney-Examiner*

HARRISBURG, PENNSYLVANIA
1976

5. That within 15 days of service by the Commission of this Order, each of the remaining parties of record shall notify the Commission whether or not he desires to continue his complaint proceeding or agrees to accept the reduced amount of increase.

Commissioner Carter dissented.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

WILKES-BARRE STEAM HEAT COMPANY

RATE INVESTIGATION DOCKET No. 47

Rates—Valuation—Steam Heat Company—Evidence—Fair Value—Base Year Data—Original Cost—Plant Additions—Current Costs.

The Commission, in determining rates that are prospective, must consider the latest available relevant data in accordance with the Pennsylvania Superior Court's decision in City of Pittsburgh v. Pa. P.U.C., 171 Pa. Superior Ct. 187, 210 (1952) which states, "although base year figures form the foundation of the Commission's determination, the latest available relevant data should be presented and considered by the Commission. Adjustments for property additions to the rate base are feasible as adjustments of other estimates bearing on the ultimate finding of fair value."

*Valuation—Steam Heat Plant—Accrued Depreciation—**Annual Depreciation.***

A proper statement of accrued depreciation at any particular date must be consistent with the latest view as to annual depreciation, i.e., after the revised annual depreciation rates have been developed, the estimate of the associated accrued depreciation must be predicated upon the assumption that the most recent developed and applied annual depreciation rates were effective throughout the entire lives of the surviving elements of plant.

Operating Expenses—Steam Heat Company—Cash Working Capital—Revenue-Expense Lag Study.

Usually in determining a cash working capital allowance for rate-making purposes, consideration should be given to the requirements indicated by a revenue-expense lag study which affects the lag in receipt of revenues by the lag in payment of expenses.

Operating Expenses—Income Taxes—Operating Loss Carry Over.

Since prior year operations had shown losses, with the result that operating loss carry over was available to the respondent steam heat company, no tax liability existed or would be incurred in the near future, no calculation of income taxes was made for rate-making purposes.

Return (rate of)—Steam Heat Company—Reasonableness.

A rate of return of 3.18 percent was not considered excessive for a steam heat company.

Philip P. Kalodner and *Susan M. Shanaman* for Public Utility Commission.

Michael C. McHugh II, for Wilkes-Barre City.

Sandra Sernak for City of Scranton.

Herbert Smolen for City of Philadelphia.

Tubis ,Schwartz and Zeigler by *Ronald Zeigler* for Wilkes-Barre Steam Heat Company.

Alonzo R. Horsey for Township of Lower Merion.

John K. Steverwald for Borough of Yeadon.

BY THE COMMISSION, *January 15, 1974:*

On December 8, 1972, Wilkes-Barre Steam Heat Company, respondent, filed Supplement No. 28 to Tariff Steam Heat-Pa. P.U.C. No. 1 to become effective December 23, 1972, providing for increases in existing rates for all customers. The proposed rates would increase annual operating revenues $190,069, or a 25 percent increase over total present revenues (basic rates, plus revenues from the fuel adjustment clause).

By our order of December 19, 1972, docketed at R.I.D. No. 47, respondent was allowed to file tariffs increasing basic rates by 25 percent without any modification whatsoever in respondent's present fuel adjustment clause. The 25 percent increase in basic rates would result in an increase of $133,700 in annual revenues based upon the test year ended June 30, 1972. An investigation was instituted by our order for the purpose of determining the fairness, reasonableness, justness and lawfulness of the rates, charges, rules and regulations proposed in the tariff supplement. On March 14, 1973, City of Wilkes-Barre submitted a petition for leave to interevene in these proceedings, which was granted by the Commission on April 3, 1973.

On March 9, 1973, a petition was submitted by the co-receivers of respondent requesting that the Commission grant a further increase in basic rates so that the total annual increase would be $190,069 and would represent a 25 percent increase in the total bill to customers. On April 16, 1973, a petition was submitted by respondent requesting that the total rate relief requested in prior petitions be approved.

By our order of May 14, 1973, respondent was allowed to file temporary basic rates to produce a revenue increase of 25 percent over the level in existence prior to the filing of the tariff being investigated and that the present fuel clause adjustment remain in effect.

On June 18, 1973, Wilkes-Barre Steam Heat Company was adjudicated bankrupt in the United States District Court for the Eastern District of Pennsylvania. Upon hearing held August 16, 1973, the Court determined that the bid made by Modular Energy Systems, Inc., was the most advantageous to the unsecured creditors of the bankrupt. By order dated August 20, 1973, the Court authorized the sale of all assets, real and personal, of Wilkes-Barre Steam Heat Company (excluding cash) to the aforementioned nominee. Thereafter, the nominee formed a limited partnership to be known as Wilkes-Barre Steam Heat Company.

The Commission on September 25, 1973, granted temporary authority to Wilkes-Barre Steam Heat Company, a limited partnership, to serve its patrons at the rates approved by the Commission on May 14, 1973, with the understanding that the temporary authority so granted will have no effect on the final determination of the application.

A prehearing conference was held in Philadelphia on February 23, 1973. In addition, hearings were held in Philadelphia, March 15 and 16; in Scranton, March 29 and 30; in Philadelphia, April 25, 26 and 27; and a final day in Harrisburg, May 7, 1973. Briefs were not filed and oral argument was not requested. The Commission's staff studied all data filed in these proceedings. The matter is now before us for disposition, and this Order is issued only with respect to our investigation at Rate Investigation Docket Number 47. This order is not to be construed as approving the original cost of plant in service, revenues and expenses for any subsequent period other than that reflected in this order.

THE COMPANY

In 1951, Pennsylvania Power and Light Company sold certain steam facilities to Scranton Spring Brook Water Service Company. The steam facilities were purchased from the latter company on December 18, 1953, by Pennsylvania Utilities Investment Corporation (PUIC), respondent's parent company at that time. Wilkes-Barre Steam Heat Company was incorporated under the laws of the Commonwealth on April 6, 1954.

PUIC was a wholly-owned subsidiary of General Waterworks Corporation, which in turn was a wholly-owned subsidiary of International Utilities Corporation. On March 9, 1972, International Service Industries acquired 100 percent common stock ownership of PUIC. Since November 10, 1972, respondent was in receivership, under control of the United States District Court of the Eastern District of Pennsylvania, subsequently it was adjudicated bankrupt on June 18, 1973 and on July 26, 1973 all its assets were sold.

Respondent's production plant is located on a one-half acre tract of land in City of Wilkes-Barre. During the test year, the plant included six coal-fired boilers, having a total rated capacity of approximately 300,000 pounds of steam per hour. The flood of June, 1972, rendered all but two of these boilers inoperative. Subsequent to the flood, six packaged oil fired boilers (with a total rated capacity of 165,000 pounds per hour) were added. The combined capacity of the plant in service subsequent to the flood was 325,000 pounds of steam per hour. In addition to the boilers, the production plant building also houses related boiler plant equipment, oil storage tanks, and other equipment incidental to plant operation.

The distribution system includes approximately 4.5 miles of insulated steel and wrought iron pipe ranging in size from 3 to 24 inches. At June 30, 1972, respondent supplied steam heat service to 362 customers.

MEASURES OF VALUE
(By Respondent)

Respondent submitted the original cost of plant in service at June 30, 1972, as its only measure of value, as shown in Table I.

TABLE I
MEASURE OF VALUE
(Respondent)

	Original Cost
	$
Utility Plant in Service at June 30, 1972	
Depreciable Plant	2,379,165
Nondepreciable Plant	41,612
	2,420,777
Less Accrued Depreciation	1,007,181
Depreciated Utility Plant	1,413,596
Add:	
Cash Working Capital	91,687
Materials and Supplies	29,098
Total Measure of Value	1,534,381

Original Cost

As shown in Table I, respondent claims an amount of $2,420,777 for undepreciated cost of steam heat plant in service at June 30, 1972. The foregoing amount is based upon the original cost for this property as determined from available property records of predecessor owners, plus subsequent net additions to June 30, 1972. In instances where aged retirement data were not available, the original cost and age at retirement were estimated by respondent's division engineer.

The surviving dollars by year of installation were developed by the Commission staff from an original cost determination accepted by this Commission in Pa. P.U.C. v. Wilkes-Barre Steam Heat Company, at C. 17220, et al. by order dated May 28, 1962, from an audit of respondent's accounting records, and an inspection of the plant facilities. The original cost determination in the prior order was developed from the original cost on the books of Pennsylvania Power and Light Company and Scranton-Spring Brook Water Service Company, predecessor owners. Adjustments were made for unrecorded retirements and plant considered not used or useful in steam plant operations.

In consideration of the foregoing, we allow a total $2,365,198 of respondent's claim of $2,420,777 for undepreciated original cost of steam facilities at June 30, 1972.

Subsequent to the June 1972 flood, respondent added six packaged oil fired boilers to its production plant and made other substantial additions to its distribution system and general plant to replace flood related damages. From a review of the expenditures and an inspection of the plant, we have determined that $697,568 of capital additions were installed and in service, and that the related retirements amount to $387,745, for a net original cost increase of $309,823.

The Commission, in determining rates that are prospective, must consider the latest available relevant data in accordance with the Pennsylvania Superior Court's decision in *City of Pittsburgh v. Pennsylvania Public Utility Commission*, 171 Pa. Superior Ct. 187, 210 (1952), which states, "Although base year figures form the foundation of the Commission's determination, the latest available relevant data should be presented and considered by the Commission. Adjustments for property additions to the rate base are as feasible as adjustments of other estimates bearing on the ultimate finding of fair value". In light of the foregoing we allow $2,675,021 ($2,365,198 + $309,823) for undepreciated original cost.

Accrued Depreciation

Respondent's estimate of accrued depreciation applicable to the original cost of the steam heat plant in service at June 30, 1972, based upon the straight-line method, amounts to $1,007,181. Total accrued depreciation to date is the net depreciation reserve as claimed on the books in the "Reserve for Renewals and Replacements" account. Respondent's annual depreciation rates were predicated upon life estimates which were made by predecessor owners. Respondent made no attempt to test the adequacy of these rates.

The Commission staff recalculated the depreciation reserve on the basis of age-life data, developed in conjunction with our original cost finding, using annual depreciation rates which were most representative of respondent's plant in service at June 30, 1972. A proper statement of accrued depreciation at any particular date must be consistent with the latest view as to annual depreciation, i.e., after the revised annual depreciation rates have been developed, the estimate of the associated accrued depreciation must be predicated upon the assumption that the most recently developed and applied annual depreciation rates were effective throughout the entire lives of the surviving elements of plant.

Based upon the foregoing, we find the accrued depreciation at June 30, 1972 to be $889,875. Taking into account the flood related retirements, we estimate that the accrued depreciation would amount to $511,843.

Cash Working Capital

Respondent claims cash working capital of $91,687 based on one-eighth of operation and maintenance expenses. Respondent's witness stated this method is used because it is the same method used in a prior rate filing. Usually in determining a cash working capital allowance, we consider the requirements indicated by a revenue-expense lag study which offsets the lag in receipt of revenues by the lag in payment of expenses. Evidence in these proceedings does not show expense lag although respondent's witness stated oil purchases are paid 20 to 22 days after receipt of oil and payroll is paid five days after the end of the work period.

Based on our study, a reasonable allowance for cash working capital would be $40,000, a reduction of $51,687 from respondent's claim.

FAIR VALUE

As noted in Table I, respondent claims an original cost of $1,534,381 as its only measure of value. The record is devoid of sufficient data to determine a fair value finding which would include trended original cost as an element.

In light of the foregoing, and taking into consideration our comments in various sections of this order, we allow $2,232,276 as the original cost measure of value.

RESPONDENT'S CLAIMED INCOME AVAILABLE FOR RETURN

Respondent claims annual income available for return of $137,466 under proposed rates as shown in the following table:

TABLE II

INCOME AVAILABLE FOR RETURN
(Respondent)

	Present Rates	*Claimed Increases*	*Proposed Rates*
	$	$	$
Operating Revenues	760,279	190,069	950,348
Operating Revenue Deductions			
Operating Expenses	733,495	—	733,495
Depreciation	62,881	—	62,881
Taxes, Other than Income Taxes	16,506	—	16,506
Income Taxes			
State	—	—	—
Federal	—	—	—
Total Operating Revenue Deductions	812,882	—	812,882
Income Available for Return	(52,603)	190,069	137,466

OPERATING EXPENSES EXCLUSIVE OF DEPRECIATION AND TAXES

Respondent claims $733,495 for annual operating expenses, exclusive of depreciation and taxes, as shown in the following table:

TABLE III

OPERATING EXPENSES
EXCLUSIVE OF DEPRECIATION AND TAXES
(Respondent)

	$
Recorded Operating Expenses Year Ended June 30, 1972	
Production System	611,243
Distribution System	68,683
Commercial Department	8,050
Sales Promotion	1,953
Administrative and General	85,322
Total Recorded Operating Expenses	775,251
Claimed Decrease	
Management Fees	41,756
Total Claimed Operating Expense	733,495

As a result of our investigation evidence of record indicates that respondent's claims require adjustments as set forth hereinafter.

Salaries and Wages

During the test year respondent recorded $12,815 of administrative salaries and wages. Testimony and exhibits supplied during our investigation indicate that $18,200 for salaries, $4,368 for office personnel and $10,770 for other administrative wages, totaling $33,338, reflects compensation recorded in the accounts of other subsidiaries which is applicable to labor performed for respondent's operations. We allow an increase of $20,523 to provide for additional labor expense.

Management Fees

Respondent had originally claimed $41,756 as management fees. Since this expense was incurred under the operation by the former owner, respondent removed it from its claim. Subsequently, an exhibit was submitted by respondent, showing estimated management fees of $190,000 for the five related steam heat companies, of which 19.9 percent, or $37,810 would be respondent's share. We allow this additional expense as being reasonable.

Insurance

Respondent's recorded insurance expense was $13,150 which had been accounted for on a cash basis and only partially covered the insurance applicable to the test year.

The five affiliated steam heat companies' insurance premiums for a full year would be as follows:

General Insurance	$157,764
Liability—umbrella coverage	2,500
Boiler Insurance	3,500
Fire Insurance	11,966
	$175,730

Based on an allocation of net plant in series for each of the five steam heating companies, respondent's share of insurance expense would be $38,660, or 22 percent. We allow an increase of $25,510 to provide for insurance expense applicable to the test year.

Employee Benefits

Recorded health, welfare and employee benefits are $5,276 for the test year. Increased labor expense applicable to respondent, as supported by the evidence, would result in a total for these expenses of $12,831, an increase of $7,555.

Bad Debts

Customers' bad debt expense of $6,659 is recorded for the test year. A reasonable allowance, in our opinion, would be $3,747 based on one-half of one percent of revenues. Accordingly, bad debt expense is reduced by $2,912.

Pensions

Recorded pension expense of $5,914 is reduced by $4,714 to reflect the current level of pension expense of $1,200.

Fuel

Test year recorded fuel expense is $503,287. Respondent assumed that revenues and expenses would remain unchanged even though the number of customers declined during and after the test year. Under Operating Revenues we reduce annual revenues to reflect losses of customers. We correspondingly estimate $6,700 less fuel expense would be necessary to serve fewer customers.

Sales Promotion

The test year accounts show $1,953 for sales promotion expense. The evidence of record indicates that only 20 percent of the amount charged is currently applicable to respondent. This claim is reduced by $1,562.

Summary—Operating Expenses

Summarizing the foregoing, we find allowable operating expenses to be $809,005 under proposed rates as shown in the following table:

TABLE IV

OPERATING EXPENSES
EXCLUSIVE OF DEPRECIATION AND TAXES
(By Commission)

Total Claimed Operating Expenses (by Respondent)			$733,495
Commission Adjustments			
Increases			
Salaries and Wages		$20,523	
Management Fees		37,810	
Insurance		25,510	
Employee benefits		7,555	
Total Increases		91,398	
Decreases			
Bad Debts	$2,912		
Pensions	4,714		
Fuel	6,700		
Sales Promotion	1,562		
Total Decreases		15,888	
Net Increases			75,510
Total Allowable Operating Expenses			$809,005

ANNUAL DEPRECIATION

Respondent claims $62,881 for annual depreciation based on plant in service at June 30, 1972. This amount was developed by the application of the estimated annual depreciation rates to the surviving undepreciated dollars for each vintage.

The Commission staff has recalculated the annual depreciation consistent with its determination of accrued depreciation. Based on the foregoing, we estimate $43,800 for annual depreciation.

TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes recorded for the test year are $16,506. Due to labor expenses allocated from affiliated companies, payroll taxes would increase $733. Pennsylvania capital stock tax recorded at $6,452 is reduced by us by $3,452 to arrive at an estimated $3,000, the amount of the most recent tax settlement. Allowable taxes other than income taxes would be $13,787 after our adjustments.

INCOME TAXES

Respondent's prior year operations had shown losses, with the result that operating loss carry over is available to the company. In view of the fact that no tax liability exists, or will be incurred in the near future, income taxes are not calculated.

OPERATING REVENUES

Operating revenues of $760,279 were recorded for the test year ended June 30, 1972. Under the proposed rates annual revenues would be increased $190,069, according to respondent, or a total of $950,348.

During the hearings, respondent submitted evidence of a loss of 22 customers and an estimated loss in revenues under present rates of $7,603. This loss would correspondingly result in a reduction in revenues from the fuel adjustment clause of an estimated $3,200, resulting in total revenues under present rates of $749,476. Applying a 25 percent increase to basic rate revenues (adjusted for lost customers) would result in an annual increase in revenues of $188,169, or $1,900 less than claimed by respondent.

Total revenues under proposed rates would be as follows:

Present rates		$760,279
Rate Increase (by respondent)		190,069
Total proposed rates		950,348
Decreases (Commission adjustment)		
Loss in customers	$7,603	
Reduction in fuel clause revenues	3,200	
Reduction in proposed increase	1,900	
		12,703
Total under proposed rates		$937,645

CONCLUSION

Summarizing the foregoing, we find that respondent's present temporary rates for steam heat service will produce annual income available for return of $71,053 at the level of operations at June 30, 1972, as shown in the following table:

TABLE V

INCOME AVAILABLE FOR RETURN
UNDER ALLOWABLE RATES
LEVEL OF OPERATIONS AT JUNE 30, 1972
(By Commission)

Operating Revenues	$937,645
Operating Revenue Deductions	
Operating Expenses	809,005
Depreciation	43,800
Taxes, Other than Income	13,787
Income Taxes	–0–
Total Deductions	866,592
Income Available for Return	$ 71,053

Income available for return of $71,053 when applied to our original cost value finding of $2,232,276 would provide a rate of return of 3.18 percent, which could not be considered excessive; THEREFORE,

IT IS ORDERED:

1. That the rates in Supplement Number 28 to Tariff Steam Heat-Pa. P.U.C. No. 1 be designated permanent rates in lieu of temporary rates as set forth by our order of May 14, 1973.

2. That our investigation and inquiry at R.I.D. No. 47 be and is hereby terminated and the record marked closed.

3. That City of Wilkes-Barre be notified of the Commission's decision in this matter.

PENNSYLVANIA PUBLIC UTILITY COMMISSION, CITY OF SCRANTON, ET AL.

v.

SCRANTON STEAM HEAT COMPANY

RATE INVESTIGATION DOCKET NO. 46

Rates—Valuation—Steam Heat Companies—Operating Expenses—Cash Working Capital—Factors to be Considered.

Usually in determining a cash working capital allowance, the requirements indicated by a revenue-expense lag study which offsets the lag in receipt of revenues by the lag in payment of expenses should be considered.