

ORIGINAL

Decision 89-04-075 April 26, 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
GREAT OAKS WATER COMPANY U-162-W,)
a corporation, for an order)
authorizing it to (1) increase)
rates charged for water service,)
and (2) revise and add to its)
rules on file with the Public)
Utilities Commission.)

Application 89-03-008
(Filed March 8, 1989)

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APR 27 1989

INTERIM OPINION

Summary of Decision

We authorize Great Oaks Water Company (Great Oaks) to establish a memorandum account to record the revenues lost due to drought-related mandatory rationing.

Background

On March 8, 1989, Great Oaks filed Application 89-03-008 requesting a 12.3% increase in rates charged for water service to offset reduction in water sales due to drought-related mandatory rationing. Great Oaks also requests authority to establish a memorandum account to record changes in revenues, including any conservation fees imposed on and paid to Great Oaks under the rationing plan, and corresponding changes in expenses resulting from lower sales.

Great Oaks provides water service in southeast San Jose, east of Snell Road, and south of Hellyer Park. Its entire service area is within the Santa Clara Valley. The Santa Clara Valley is faced with an immediate critical water shortage as a result of continued drought in Northern California. The total precipitation in the Valley during the 1988 - 1989 rainy season has been less than 42% of normal. This condition has caused the reservoir storage levels to drop to 7.3% of capacity. The prospect of any significant rainfall this spring is unlikely. Great Oaks' major

source of supply is the groundwater from the Santa Teresa Groundwater Basin.

On February 21, 1989, the Santa Clara Valley Water District (District) which manages the Santa Teresa Basin declared the County of Santa Clara to be in a state of drought and initiated an across-the-board reduction in water consumption of 45% to all municipalities and other water utilities in the county. This 45% reduction was to become effective April 1, 1989. Accordingly, Great Oaks prepared a mandatory rationing plan providing for a commensurate 45% reduction in usage by its customers, limitation on the type of use, and penalties for violation of the provisions of the plan. Great Oaks proposed to adopt the plan at the earliest date possible, consistent with rules and regulations of the Commission and the California Water Code.

On March 8, 1989, Great Oaks filed Advice Letter No. 121 requesting approval of its rationing plan.

Great Oaks calculated that 45% reduction in the sales would result in 12.3% revenue shortfall. Therefore, Great Oaks requested an increase of \$467,238. Great Oaks also requested that hearings in this application be set at the earliest possible date after the filing of appropriate notice to customers.

One month later, District revised its previous mandate for a 45% water reduction to 25% due to the grant by the U.S. Bureau of Reclamation (Bureau) of 80% of District's normal water allotment. The Bureau left open the possibility that more water could be allotted by mid-April should District meet the Bureau's "hardship" requirements. District considers precipitation and runoff during March as eliminating the worst-case scenario in its contingency plans. District will not know for two or three months if the 25% rationing can be scaled back. However, District is not willing to declare an end to the drought since there are still areas in the Santa Clara Valley that will be under stress.

On April 4, 1989, Great Oaks amended its application to reflect the change in its water use curtailment from 45% to 25%. In its amended application, Great Oaks requests an increase of \$259,576 or 6.9%.

Since Great Oaks has not filed a general rate increase application in over 10 years, it has no adopted summary of earnings. Therefore, Great Oaks developed its revenue loss due to the 25% mandatory rationing by using recorded 1988 revenue, expense, and plant data with certain normalization adjustments. Great Oaks made normalization adjustments to recorded 1988 data because 1988 water sales were affected by water shortages which ultimately led to the present drought. In order to make the normalization adjustments, Great Oaks used 1987 recorded water consumption as the "average normal year water use." The mandated conservation level sales are based on 1987 recorded sales. Using the above bases, Great Oaks calculates a charge of \$0.093 per Ccf would recover the requested \$259,576 revenue increase.

Great Oaks expects that actual reduction in sales during the time of water rationing will be greater or less than the mandated conservation levels causing actual revenue loss to be greater or less than the estimated level. Therefore, Great Oaks also requests authority to establish a memorandum account to record under or over collection of revenue loss including any conservation fees and related reductions or increases in expenses resulting from actual sales being above or below the mandated conservation levels.

In addition to the request to establish a memorandum account, Great Oaks also proposes a procedure to record entries in the account. Under Great Oaks' proposed memorandum account procedure, differences in actual water sales and conservation mandated sales each year would be multiplied by the proposed revenue surcharge of \$0.093/Ccf to arrive at an annual under or over collection. Great Oaks' revenue surcharge amount of \$0.093/Ccf was developed using current rates for pump tax,

purchased power, and water. Changes in these rates will result in a change in the revenue surcharge rate effective on the date of such changes. Great Oaks proposes to amortize the cumulative under or over collection through an advice letter filing when the net balance in the memorandum account exceeds 2% of Great Oaks' annual revenue or when this memorandum account is terminated.

Workpapers supporting Great Oaks' calculations are included in Exhibits A and B attached to the original application and the revised pages attached to the amended application.

The Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division has reviewed the application and recommends that a memorandum account be authorized on an interim basis. Branch will make the recommendations regarding drought related rate relief in Order Instituting Investigation (I.) 89-03-005.

Discussion

District has declared the County of Santa Clara to be in a state of drought and has initiated an across-the-board reduction in water consumption of 25% by all municipalities and other water utilities in the county. The cutbacks in water consumption are immediate.

In compliance with District's request, Great Oaks seeks to implement water rationing in its service area and at the same time receive authority to record any ensuing revenue losses in a memorandum account.

We believe that Great Oaks will suffer a revenue loss as a result of the imposition of the rationing by District. Because of the prohibition against retroactive ratemaking, Great Oaks will not be able to recover the lost revenues without Commission authorization to record such losses in a memorandum account. Therefore, we will authorize Great Oaks to establish a memorandum account to record undercollections in revenue and related reductions in expenses resulting from changes in sales due to water

rationing. As recommended by Branch, we will use Great Oaks' proposed procedure and estimate of conservation mandated sales and corresponding revenue losses included in Exhibits A and B, as revised in the amended application.

As to the proposed rate recovery, we believe that more issues need to be addressed before such recovery could be authorized. The issues raised in this application are the same or related to those in I.89-03-005. In that investigation, we requested that the public and a very broad-based group within the water industry address "the need for and magnitude of rate adjustments to accommodate utilities' increased conservation expenditures and sales reductions." (Order, p. 2.) To avoid duplication of effort in this docket and our water investigation, and to assure that our findings on these issues are consistent throughout the state, we will consolidate this proceeding with I.89-03-055.

Findings of Fact

1. District has declared Santa Clara County to be in a state of drought and has issued an emergency mandate throughout the county for an immediate 25% reduction in water consumption. District is unable to predict when this crisis will end.
2. Great Oaks' service territory is in Santa Clara County.
3. Great Oaks requests ex parte interim authority to establish a memorandum account to accrue the effects of 1989 sales reductions under a specific procedure. In addition, Great Oaks requests an increase in rates of 6.9%, after hearing.
4. Great Oaks filed Advice Letter No. 121 seeking approval of its mandatory rationing plan.
5. The implementation of mandatory rationing will cause Great Oaks' sales and earnings to be reduced by an amount which is unknown until rationing occurs.

6. Great Oaks will not be able to recover the drought related losses without the authorization to record such losses in a memorandum account.

7. Branch recommends that Great Oaks be authorized to record the related revenue loss and corresponding expenses in a memorandum account.

8. The issues related to Great Oaks' proposed rate increase are similar to the issues to be addressed in I.89-03-005.

9. A public hearing on the establishment of a memorandum account is not necessary since rates are not affected by such action.

Conclusions of Law

1. Great Oaks' request to establish a memorandum account to accrue the effects of sales reductions due to water rationing should be granted ex parte.

2. All other issues raised in this application should be consolidated with I.89-03-055 for further hearing.

3. Since revenue losses are threatened from the time rationing begins, the effective date of this order should coincide with the effective date of the resolution approving Great Oaks' mandatory rationing plan (Advice Letter No. 121.)

INTERIM ORDER

IT IS ORDERED that Great Oaks Water Company (Great Oaks) is authorized to establish a memorandum account to accrue changes in revenue, sales, and sales-related expenses due to the adoption of its mandatory water rationing plan (Advice Letter No. 121) until further order of the Commission under the following conditions:

- a. Great Oaks shall use the mandatory sales reduction quantities and corresponding revenue loss and expense estimates included in Exhibits A and B attached to the application including the changes identified in the amended application.

Great Oaks' proposed procedure for recording entries in the memorandum account shall be used as an interim measure.

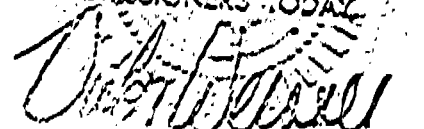
- b. No costs or expenses incurred prior to the date of this order shall be included in the memorandum account.
- c. This interim measure shall not prejudice any issues in the application.
- d. The reasonableness of costs and expenses included, methodology of calculating costs and terminating the account, procedures for placing costs into rates, and any other issues raised in this application shall be consolidated with I.89-03-005. No costs, expenses, or penalties contained in the memorandum account shall be placed into rates without Commission authorization.

This order is effective today.

Dated APR 26 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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


Victor Weissor, Executive Director

JB

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