

Decision 89 05 069 MAY 26 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's)
own motion into measures to)
mitigate the effects of drought on)
regulated water utilities, their)
customers and the general public.)

I.89-03-005
(Filed March 8, 1989)

INTERIM OPINION ON CALIFORNIA WATER SERVICE COMPANY'S
PETITION TO INCREASE RATES IN ITS LOS ALTOS-SUBURBAN DISTRICT

Summary of Decision

This decision authorizes California Water Service Company (CWS) to establish a memorandum account to record the revenues lost due to drought-related mandatory rationing in its Los Altos-Suburban (LAS) District.

Background

On March 8, 1989, the Commission issued an Order Instituting Investigation (I.) 89-03-005 into measures to mitigate the effects of drought on regulated water utilities. In its order, the Commission, among other things, authorized water utilities to request drought-related emergency rate relief in I.89-03-005.

Under the authority granted in I.89-03-005, on April 24, 1989, CWS filed a petition seeking rate increase in its LAS District to offset the effects on earnings of mandatory water rationing.

CWS purchases approximately 60% of its water supply for the LAS District from the Santa Clara Valley Water District (SCVWD). The remaining 40% water supply is pumped from CWS-owned wells which are located within SCVWD's boundaries.

On March 21, 1989, SCVWD mandated a 25% reduction in water sales by all retail water suppliers that either purchased water from SCVWD or pumped water within SCVWD's boundaries. This

mandate followed a finding by the District that the County of Santa Clara was in a state of drought.

As mandated by SCVWD, CWS developed a mandatory rationing plan for the LAS District. On April 12, 1989, CWS filed Advice Letter No. 1093 requesting approval of its rationing plan.

CWS believes that the implementation of mandatory rationing will reduce its earnings and, therefore, requests a rate increase for its LAS District.

In order to compute the revenue loss, CWS relies on the adopted sales, revenues, and costs in Decision (D.) 89-04-060 in LAS District's most recent general rate proceeding (Application 88-04-070). Based on the adopted quantities in D.89-04-060, CWS will require a \$846,000 or 12.7%, rate increase to offset the loss of earnings resulting from a decline in sales from the 1989 adopted level of 5,515,204 Ccf to the mandatory rationing level of 4,517,043 Ccf. CWS calculates that a charge of \$0.1873 per Ccf would recover the requested \$846,000 revenue increase.

CWS recognizes that it may not receive the requested increase until some time after its rationing plan goes into effect. Therefore, CWS also requests authority to establish a memorandum account to record revenue losses and related expense savings resulting from actual sales being below the adopted levels until a final decision is issued on this subject.

Workpapers supporting CWS's calculations are included in Schedules 1, 2, 3, and 4 attached to the petition.

The Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division has reviewed the petition and recommends that a memorandum account be authorized on an interim basis. Branch will make recommendations regarding drought-related relief during the hearings in this proceeding.

Discussion

SCVWD 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, CWS seeks to implement water rationing in its LAS District and at the same time receive authority to record any ensuing revenue losses in a memorandum account.

CWS may well suffer a revenue loss as a result of the imposition of the rationing proposed by Advice Letter No. 1093. Because of the prohibition against retroactive ratemaking, CWS will not be able to recover the lost revenues without Commission authorization to record such losses in a memorandum account. Therefore, we will authorize CWS to establish a memorandum account to record under collections in revenues and related reductions in expenses due to water rationing.

As to the proposed rate recovery, we believe that it should be considered after all the issues raised in this investigation are addressed.

Findings of Fact

1. SCVWD 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.
2. CWS's LAS District is located in Santa Clara County.
3. CWS requests ex parte interim authority to establish a memorandum account to accrue the loss of revenues and corresponding reductions in expenses resulting from water rationing.
4. CWS filed Advice Letter No. 1093 seeking approval of its mandatory rationing plan.
5. The implementation of mandatory rationing will cause LAS District sales and earnings to be reduced by an amount which is unknown until rationing occurs.

6. CWS 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 CWS be authorized to record LAS District's drought-related revenue loss and corresponding reduction expenses in a memorandum account.

8. 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. CWS should be authorized ex parte to record LAS District's drought-related revenue loss and corresponding reduction in expenses in a memorandum account.

2. 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 the mandatory rationing plan for CWS's LAS District (Advice Letter No. 1093).

INTERIM ORDER

IT IS ORDERED that California Water Service Company (CWS) is authorized to establish a memorandum account to accrue changes in revenues, sales, and sales-related expenses due the adoption of the mandatory rationing plan for its Los Altos-Suburban (LAS) District (Advice Letter No. 1093) until further order of the Commission under the following conditions:

- a. CWS shall use the mandatory sales reduction quantities and corresponding revenue loss and expense estimates included in Schedules 1, 2, 3, and 4 attached to its petition for rate relief.
- b. No costs or expenses incurred prior to the effective date of this order shall be included in the memorandum account.

c. This interim order shall not prejudice any issues raised in CWS's petition.

This order is effective today.

Dated MAY 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

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