

Decision 89 06 053 JUN 21, 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
California-American Water Company)
(U-210-W) for an order authorizing)
it to increase its rates for water)
service in its Monterey District)
to offset the loss of revenues)
caused by mandatory rationing rules)
established by the Monterey)
Peninsula Water Management District.)

Application 89-04-014
(Filed April 10, 1989)

INTERIM OPINION

Summary

California-American Water Company (Cal-Am) is authorized to establish a memorandum account to record the revenues lost due to drought-related mandatory rationing in its Monterey District. This proceeding is consolidated with Investigation (I.) 89-03-005, the Commission's generic investigation into drought mitigation measures, for consideration of Cal-Am's request for authority to increase rates and to establish a balancing account to record undercollection and overcollection of revenues.

Background

Effective September 8, 1988, the Monterey Peninsula Water Management District (MPWMD) declared a water supply emergency and adopted a four-phase water rationing plan, affecting water distribution systems in MPWMD's jurisdiction, including Cal-Am, and the customers they serve. Phase I, which prohibits water waste and prescribes various conservation measures, was implemented on that date. At that time, MPWMD also outlined Phase II, III, and IV measures which restrict non-essential water use and provide increasingly restrictive limitations on water use.

On December 12, 1988 MPWMD established detailed Phase III water rationing rules to become effective January 1, 1989. Cal-Am's Monterey District customers are required to limit their consumption to 80% of the amount consumed during the same billing period in the base year October 1, 1987 to September 30, 1988. Minimum lifeline quantities are allowed for residential customers. Water users who repeatedly exceed their allocations are subject to the imposition of surcharges calculated on a sliding scale ranging from 3.3 cents to 33.4 cents per gallon of excess usage. The excess water use surcharge is collected by the water distribution systems and forwarded to MPWMD.

On March 8, 1989 we initiated a generic investigation (I.89-03-005) into measures to mitigate the effects of drought on regulated water utilities, their customers, and the general public. The order instituting investigation (OII) specifies a number of subjects to be addressed, including the need for and magnitude of rate adjustments to accommodate utilities' sales reductions. We stated in the OII that it would be appropriate for water utilities affected by rationing to request offsetting rate relief for the accompanying lack of sales, plus authority to establish memorandum accounts to accumulate the loss of revenues pending a decision.

Application

Cal-Am filed Application (A.) 89-04-014 on April 10, 1989. It requests authority to increase its rates to offset the revenue loss associated with mandatory rationing. Using the sales, revenues, and costs adopted in D.89-02-067 in the most recent general rate proceeding for the Monterey District, the company calculated the impact of rationing. It estimates that based on 80% of normal usage for test year 1989, the additional revenue (net savings of expense items due to reduced consumption) required to achieve its currently authorized rate of return is \$1,015,600. In anticipation of consumption reductions in excess of targeted rationing amounts, Cal-Am requests also authority to establish a

balancing account to accumulate overcollections and undercollections. Finally, it proposes to establish a memorandum account to accumulate the loss of revenue until a decision on the rate increase is rendered by the Commission.

The Water Utilities Branch (Branch) of the Commission's Advisory and Compliance Division has reviewed the application, and recommends that a memorandum account be authorized on an interim basis pending a Commission decision on rate relief. Branch also recommends that the need for and magnitude of rate relief be determined in I.89-03-005.

Discussion

MPWMD declared a water supply emergency approximately nine months ago, and its mandatory rationing plan providing for a 20% reduction in consumption has been in effect since January 1, 1989. Cal-Am may suffer a revenue loss as a result of consumption cutbacks. Because of the prohibition on retroactive ratemaking, Cal-Am will not be able to recover the lost revenue without Commission authorization to record such losses in a memorandum account. Therefore, we will authorize Cal-Am to establish a memorandum account to record undercollections in revenues and related reductions in expenses due to water rationing.

By authorizing a memorandum account, we do not at this time make a finding on the merits of Cal-Am's rate relief request. We believe more issues need to be addressed before any recovery of lost revenues is authorized. The issues raised in this application are the same as or related to those which will be more broadly considered in I.89-03-005 on an industry-wide basis. To avoid duplication of effort in this docket and our generic investigation, and to assure that our findings on these issues are consistent throughout the state, we will consolidate this proceeding with I.89-03-005.

Findings of Fact

1. Effective September 8, 1988, MPWMD declared a water supply emergency affecting water distribution systems under its jurisdiction, including Cal-Am's Monterey District.
2. Effective January 1, 1989, MPWMD established water rationing rules requiring Cal-Am's Monterey District customers to limit their consumption to 80% of the amount consumed during the same billing period in the base year October 1, 1987 to September 30, 1988.
3. On March 8, 1989 we initiated a generic investigation (I.89-03-005) into measures to mitigate the effects of drought, including the need for and magnitude of rate adjustments to accommodate sales reductions.
4. The OII stated that it would be appropriate for water utilities affected by rationing to request offsetting rate relief for the accompanying lack of sales, plus authority to establish memorandum accounts to accumulate the loss of revenues pending a decision.
5. Branch recommends that a memorandum account be authorized on an interim basis pending a Commission decision on rate relief, and that the need for and magnitude of rate relief be determined in I.89-03-005.
6. The imposition of mandatory rationing by MPWMD will cause Cal-Am's Monterey District sales and earnings to be reduced.
7. Because of the prohibition on retroactive ratemaking, Cal-Am will not be able to recover any lost revenue without Commission authorization to record such losses in a memorandum account.
8. By authorizing a memorandum account, we do not at this time make a finding on the merits of Cal-Am's rate relief request.
9. A public hearing on the establishment of a memorandum account is not necessary since present rates are not changed by such action.

10. There will be additional delay before Cal-Am's request for rate relief is considered by the Commission.

11. A memorandum account as proposed in the application is justified.

12. The issues raised in this application are the same as or related to those which will be more broadly considered in I.89-03-005 on an industry-wide basis.

13. Consolidation of this application with our generic investigation in I.89-03-005 will avoid duplication of effort and assure that our findings on these issues are consistent throughout the state.

Conclusions of Law

1. Cal-Am should be authorized to establish a memorandum account to record undercollections in revenues and related reductions in expenses due to water rationing.

2. This proceeding should be consolidated with I.89-03-005.

3. Since mandatory rationing is already in place in Cal-Am's Monterey District, this order should be made effective on the date it is signed.

INTERIM ORDER

IT IS ORDERED that:

1. California-American Water Company is authorized to establish a memorandum account for its Monterey District to accrue changes in revenues, sales, and sales-related expenses due to mandatory rationing until further order of the Commission under the following conditions:

a. The memorandum account will provide a record of sales revenue loss (or gain) by a calculation of the difference between recorded sales and the adopted sales set forth in D.89-02-067 from time to time minus reduced water production costs related to such sales reductions.

- 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 the application.
2. A.89-04-014 is consolidated with I.89-03-005.
This order is effective today.
Dated JUN 21 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 Weissler, Executive Director

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