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Decision 90-08-055 August 8, 1990

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)

And Related Matters.

Application 88-05-045
Application 88-09-029
Application 89-03-008
Application 89-04-014

(See Appendix A for appearances.)

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INTERIM OPINION

Summary of Decision

The Commission authorizes California American Water Company (CalAm), California Water Service Company (CalWater), San Jose Water Company (SJWC), and Great Oaks Water Company (Great Oaks) to implement a surcharge to recover revenue losses due to mandatory rationing.

The Commission also orders the utilities to use the fines collected from customers for using more than their allotment of water during rationing to offset revenue losses during rationing and fines collected by the utilities' wholesalers, and to refund any remaining funds to the customers.

In addition, the Commission concludes that water utilities should receive an expeditious authorization to implement mandatory rationing during future periods of water shortages. Accordingly, this order requires expeditious processing of utility requests to implement mandatory rationing.

Finally, this decision orders all Class A water utilities to file an application containing a water management program. This application may contain the utilities plan to recover conservation related expenditures and/or receive protection from water sales fluctuations. Guidelines for an effective water management program are established in this order. Utilities who wish to pursue recovery of amounts accumulated in memorandum accounts established either on July 18th or in the course of this OII and continued after this date, must file an application containing a water management plan no later than 90 days after the effective date of this order. Class A Utilities are ordered to file applications containing water management programs no later than 90 days past the effective date of this order, unless the utility can show that such a program is not needed or unworkable. The applications are intended to establish incentives to conserve water supplies, to

remove disincentives to encourage reduced consumption and to increase long term conservation efforts with regard to California's long term water supply and demand outlook.

On July 18th the Commission issued an order allowing any water utility who may wish to recover the costs of conservation efforts to establish a memorandum account to track both direct conservation expenses and to track the differences between forecasted water sales and actual water sales. Amounts accumulated in these memorandum accounts dating no earlier than the July 18th order are considered subject to recovery in whole or in part pending Commission approval of the water utility's water management plan. Water utilities who had established memorandum accounts prior to July 18th pursuant to Commission orders in the course of this drought proceeding are authorized to continue those accounts. Amounts in these latter accounts not disposed of in this proceeding will also be disbursed pursuant to approval of a utility application containing an acceptable water management plan. Guidelines for appropriate water management plans are established in this order.

At this time, the Commission also advises water utilities that adoption of such balancing and/or memorandum account treatment which would eliminate variations from the forecast should have the effect of reducing the risk of investment in the water utility. Accordingly, in reviewing the water management plan we will also consider whether a reduction in that utility's rate of return is warranted to reflect this reduced business and financial risk. Furthermore, before allowing recovery of any amounts recorded in these accounts between the date of either July 18th or this decision and the approval of the water management plan, we will consider offsetting against such recovery an amount to reflect a reduced rate of return. Alternatively the Commission may allow recovery of only a portion of the recorded interim amounts in light of presently authorized rates of return.

Background

California began the 1989 water year facing the prospect of severe water shortages as a result of limited precipitation during 1987 and 1988. Water rationing was imposed in certain counties. Therefore, on March 8, 1989, the Commission on its own motion issued an Order Instituting Investigation (I.) 89-03-005 into measures to mitigate the effects of drought on regulated water utilities, their customers, and the general public. All water utilities subject to the Commission's jurisdiction were made respondents to the investigation.

The Commission ordered respondent utilities to provide the following information regarding water supply and conservation efforts to the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division:

- a. Whether special conservation or rationing efforts will be needed to meet demands during the coming dry season.
- b. The percentage of normal demand that can be met by expected supplies during the coming dry season.
- c. The nature of any additional supplies which could be developed and the extent to which they could help meet normal demand.
- d. Any additional information which would be helpful in understanding each company's or district's water supply status for 1989, including proposed mitigation measures for those with projected shortages.

Most respondents furnished the necessary information to Branch. The responses are summarized later in this opinion.

As a result of rationing by counties, certain water utilities or districts of water utilities had to impose mandatory water rationing on their customers. The water utilities which had to impose rationing requested rate relief to offset the impact of

revenue losses due to rationing. The water utilities made this request in this and various other proceedings.

In response to such requests, the Commission authorized the utilities with mandatory rationing to establish memorandum accounts to accrue changes in revenue, sales, and sales-related expenses due to the imposition of mandatory rationing. The Commission also ordered that the methodology of calculating the costs and terminating the memorandum accounts, procedures for placing costs into rates, and related issues shall be addressed in this proceeding.

This proceeding involves two main categories of issues. The first category of issues deals with water supply and conservation efforts, and the second category of issues relates to the recovery of conservation-related expenses and revenue losses due to rationing. We will discuss each category separately.

Hearings and Workshops

Evidentiary hearings were held before Administrative Law Judge (ALJ) Gardé on June 20 and 21, 1989 in Los Angeles and on June 26, 1989 in San Francisco.

During the hearings, parties discussed Branch's proposed method of terminating the memorandum accounts and rate recovery for affected utilities. Parties agreed that the details of Branch's proposal should be formulated in a workshop attended by Branch and water utilities. Parties also agreed to discuss the following issues in the workshop:

- a. CalWater and SJWC's proposal to create balancing accounts to mitigate the effects of rationing on their earnings during future droughts, and
- b. The disposition of drought-related penalty monies collected by CalWater for its San Francisco-Peninsula Districts.

The workshop was held on August 9, 1989. On October 24, 1989, Branch and parties attending the workshops filed a joint exhibit outlining their areas of agreement and disagreements. Further hearings were held on January 23, 1990, to address the disagreements.

During hearings, SJWC and CalWater raised the following additional issues:

- a. Compensation for sales loss due to residual conservation.
- b. Compensation for increased expense incurred due to change in supply mix.

The ALJ ruled that the additional issues would be addressed in the second phase of the proceeding and that this phase of the proceeding will address the following four ratemaking issues:

- a. Disposition of drought-related fines.
- b. Recovery of revenues lost due to rationing.
- c. Disposition of memorandum account.
- d. Conservation expenses.

The hearing on the disposition of drought-related fines was held on February 14, 1990 in San Jose at the request of the Santa Clara Valley Water District. The first phase of the proceeding was submitted upon receipt of concurrent briefs on March 13, 1990.

Overview: Water Supply and Conservation Issues

Drought

During the 1988-89 rainy season, precipitation was much less than normal. Consequently, reservoirs statewide had only 66% to 80% of their storage capacity available for use in March 1989. By April 3, 1989, drought conditions no longer existed north of the

Sacramento River Delta and northern California had already received up to 95% of its normal seasonal rainfall. In the central and southern Sierra, water agencies still anticipated a tight supply due to low rainfall.

There were significant shortages in the Central Coast counties from San Francisco to Santa Barbara. There also was a shortage of surface water in the San Joaquin Valley, which was being alleviated by pumping ground water.

Southern California had an adequate supply because water from the Colorado River, a major source of water for the Los Angeles-Orange County area, had not yet been reduced by Arizona's use of its share of the Colorado River Basin runoff.

Since most of the smaller water companies are not connected to the large water projects, they do not benefit directly from statewide supplies. The majority are on wells and generally had adequate supplies.

As of April 1, 1989, rationing measures were in effect on the Monterey Peninsula, with a planned 20% reduction in water use, and in the Santa Clara Valley. The City of San Francisco continued to require rationing by utilities to which it sells wholesale water.

Branch first surveyed all regulated water utilities in mid-1988 to determine their water supply status. At that time it was found that about 3% of the water utility systems were expected to have serious problems, and if there were an unprecedented third dry year, Branch estimates that about 13% of the systems would have serious problems.

Utility Responses

Branch received 113 responses to the questions included in the OII. Certain responding utilities with multiple districts or systems provided multiple responses. Utilities' responses to questions regarding whether a utility would need special conservation efforts and what percentage of normal demand it would meet are summarized below.

Utility Responses

	<u>Utility Class</u>				<u>Total</u>
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
<u>Special Efforts Required (Q.1)</u>					
Yes	16	1	2	1	20
No	47	7	36	93	93
<u>Percent of Demand Met (Q.2)</u>					
Below 70%	0	0	0	0	0
71 - 75%	7	0	0	0	7
76 - 89%	1	0	0	0	1
90 - 99%	0	1	0	0	1
100% and above	54	7	38	3	102
No estimate	1	0	0	1	2

NOTE: Most responses to the questions regarding the need for additional supplies were in the form "N/A" (not applicable). This was especially true in cases where utilities did not anticipate any need for conservation or rationing efforts. Other responses concerning additional supplies include the possibilities of adding or deepening wells, interconnections with other systems, obtaining treated water, and adding more capacity and facility.

Approximately 8% of the utilities responding indicated that they would be able to meet 90% or less of their customer demand. Even though these utilities represent a minority, the need for conservation measures is still evident.

Most of the utilities that reported an inability to fully meet customer demands buy their water from a regional water agency or district. Some of these agencies ration water sales to the utilities and also force utilities to impose rationing measures on their customers; some agencies just ration the water provided to the utilities.

These restrictions pose a serious problem to some utilities, especially for CalAm's Monterey District, CalWater's Santa Clara Valley Districts, Great Oaks, and SJWC.

In addition to the respondents, the Metropolitan Water District of Southern California (MWD) provided testimony regarding water supplies.

MWD is a public agency and supplies water directly to 27-member agencies, including 14 cities, 12 municipal water districts, and one county water authority. These member agencies, in turn, provide water to over 300 cities and unincorporated areas and approximately 14.5 million people. MWD's service area contains approximately 5,200 square miles in the Southern California coastal plain, including all or parts of Ventura, Los Angeles, Orange, Riverside, San Bernardino, and San Diego Counties.

According to MWD, although Southern California has not been affected seriously by the current drought, it faces serious supply problems in the near future because of expected growth in natural population and net in-migration.

In addition, MWD opines that as a result of Arizona v California decision by the United States Supreme Court, Southern California lost half of its Colorado River supply. MWD believes that water supplies have been adequate in Southern California in recent years only because record water years on the Colorado River have made surplus water and water unused by Arizona and Nevada available to Southern California. However, MWD believes that Colorado River water is overappropriated. Table 1 shows MWD's projected water demands and supplies through 2010.

TABLE 1

Comparison of Existing Reliable Water Supplies With Demands in the MWD Service Area (Projected Million AF)

<u>Existing Water Supplies</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
Local Surface and Ground Water	1.03	1.03	1.04	1.04
Wastewater Reuse	0.14	0.20	0.22	0.22
Imported				
Los Angeles Aqueducts	0.42	0.42	0.42	0.42
Colorado River	1.16	1.16*	0.47	0.47
State Water Project	<u>1.09</u>	<u>1.18</u>	<u>1.16</u>	<u>1.14</u>
Total Water Supplies	3.84	3.99	3.31	3.29
Historical and Projected Water Demands	2.95	3.50	3.92	4.33
Surplus (or Shortages) in Supplies	0.89	(0.49)	(0.61)	(1.04)

* Assumes that the Secretary of Interior approves the delivery of unused Arizona and Nevada water to California during 1990. Availability of this water depends upon year-to-year decisions made by the Secretary.

Mitigating the Effects of Water Shortages

In light of the projected water shortages, we must consider methods of meeting future needs and mitigating the effects of shortage. Utilities have the following methods available to mitigate the effects of water shortages:

1. Conservation
2. Rationing
3. Alternative Supplies
4. Other Methods

Conservation

Water utilities are using some or all of the following methods of promoting conservation:

1. Educating customers through bill stuffers, spot advertisements and movies shown at schools to conserve water.
2. Distributing conservation kits to consumers.
3. Prohibiting nonessential or unauthorized water use such as ponding or street runoff.

The Commission has encouraged utilities to promote conservation and has allowed rate recovery for conservation expenses. The conservation programs have been effective, yet the Commission believes more can be done to remove disincentives. It may also be appropriate to design incentives for water companies to conserve water as part of Commission regulation of water utilities concerned about limited long term water reserves. Water utilities are afforded the opportunity to design water management programs which achieve the joint goals of financial stability and water resource preservation.

Rationing

Water rationing can be achieved by (1) requiring customers to reduce water use by a certain percent of the "previous year's" water usage, or (2) providing customers a fixed allocation

of water. Both types of rationing plans have their drawbacks. The percentage reduction plan rewards past water abusers and punishes past water conservers, unless, as most water utilities practiced, individual allocations are adjusted upon valid appeal by the customer. On the other hand, fixed allotment plan does not take into consideration the customers of large households.

Water utilities or their districts which have imposed mandatory rationing have used the percentage reduction plan.

The rationing plans have achieved the desired reduction in water use. In conjunction with their rationing plans, utilities were also authorized to impose fines for water usage in excess of a customer's allotment. The utilities have collected the fines. The disposition of the collected fine is discussed later in this opinion.

Alternative Supplies

Certain utilities have taken steps to obtain alternative water supplies. These include increasing the existing supply source (e.g. if ground water is used, deepening the wells), obtaining water from interconnections or transfers with other agencies.

In addition to the above sources of alternate supplies, the California Association of Reclaimed Entities of Water (CAREW) recommended that the Commission adopt rules which will encourage investor-owned utilities to participate in opportunities to develop reclaimed water distribution systems within their service areas.

CAREW believes that to do so would promote good public policy. According to CAREW, all participants benefit from such projects because the appropriate use of reclaimed water helps to minimize the impact on potable water shortages and the beauty of the irrigated portion of the community continues to persist even in drought areas.

Other Methods

Some of the other methods of mitigating the impact of water shortages that are being employed or considered by water utilities include:

1. Increasing overall plant efficiency by reducing system leaks and/or system pressure.
2. Blending of lower quality potable water with existing supplies.
3. Metering of customers.
4. Customer leak detection and reduction program.

MWD's Proposal

MWD recommends that the Commission consider two actions as part of this investigation. First, the Commission should consider the implementation of appropriate flexible rate adjustment mechanisms, which are necessary for the successful implementation of widespread water conservation programs. Second, the Commission should include an investigation of the current reliability of the state's water supply, including the adequacy of current supplies to protect water consumers from shortage and possible ways to restore reliability to the system. These recommendations are discussed below.

Rate Flexibility

MWD asserts that effective conservation programs will require a partnership between water agencies and water consumers. Therefore, MWD opines that participation by regulated water utilities is essential to implementing widespread conservation programs. According to MWD, current ratemaking procedures do not allow such participation. To make these programs attractive to regulated utilities, MWD recommends that the Commission adopt a mechanism which would allow rate adjustments to cover both investment costs for conservation and compensation for lost

revenues due to reduced sales so that a utility can maintain a fair rate of return and insure its financial integrity.

Supply Reliability

According to MWD, over the longer term, periodic shortages may impose significant difficulties for water purveyors and their customers. For water utilities, the risk of shortage threatens their financial integrity because reduced sales could reduce revenues and rates of return. Consequently, MWD believes that some form of rate flexibility is necessary during shortages to protect the financial integrity of the water company.

To address adequately the concerns of consumers and the public regarding water supply reliability, MWD recommends that the Commission investigate as part of this investigation the current status of the reliability of water supplies and necessary steps to increase reliability.

Summary of Water Supply Issues

It appears that California faces a bleak water supply situation in the future. While we strongly believe that every effort should be made to reduce water use and increase water supply, we recognize that any action by the Commission will have a limited impact on the statewide water supply problems because the water use by customers of regulated water utilities is less than 3% of the total water use in the state. However, given this limitation, we still encourage utilities to continue diligently their conservation program, make every effort to minimize water leaks, and expand their supply sources.

As to MWD's recommendation that the Commission allow rate adjustments for utilities' conservation efforts, we believe that with Decision 90-07-067, we are now allowing the costs associated with conservation to be tracked in memorandum accounts. The Commission, in this order, will also address the issue of recovery of lost revenues due to reduced sales. In addition, in Phase II of this OII utilities will file applications containing water

management plans which may remove traditional disincentives to reduce water consumption and explore the feasibility of new incentives to encourage long term water management programs.

Further, as MWD suggests, the Commission has investigated reliability of regulated water utilities in this proceeding. The results of Commission survey are discussed earlier in this opinion.

Finally, we will consider CAREW's recommendation that the Commission adopt rules to encourage utilities to develop reclaimed water systems. We believe that use of reclaimed water will be a positive step in improving water supplies. We encourage utilities to explore cost-effective ways of using reclaimed water for their service areas.

Recovery of Revenues

Memorandum Accounts

Certain water utilities or districts of water utilities had to impose mandatory water rationing on their customers. They requested rate relief to offset the impact of revenue losses due to rationing.

Because of the uncertainties associated with the projected revenue losses, the Commission did not authorize the requested rate relief. Instead, the Commission authorized the utilities with mandatory rationing to establish memorandum accounts to accrue revenue losses due to reduced sales and related changes in water production costs. The Commission also ordered that the methodology of calculating the costs and terminating the memorandum account, procedures for placing costs into rates, and related issues shall be addressed in this proceeding. Table 2 includes a list of utilities or districts of utilities which were authorized to establish memorandum accounts.

TABLE 2

<u>Utility/District</u>	<u>Proceeding</u>	<u>Decision</u>
1. San Jose Water Company	A.88-09-029	D.89-04-041
2. California Water Service Co., Bear Gulch, San Carlos, San Mateo, and South San Francisco Districts	A.88-05-045	D.89-04-046
3. Great Oaks Water Company	A.89-03-008	D.89-04-075
4. California Water Service Co./ Los Altos Suburban District	I.89-03-005	D.89-05-069
5. California American Water Co./ Monterey District	A.89-04-014	D.89-06-053

It should be noted that all the proceedings which dealt with memorandum accounts, except Application (A.) 88-05-045, have been consolidated with I.89-03-005. We will consolidate A.88-05-045 with I.89-03-005 for the purpose of issuing this decision.

Before we address the rate relief issues, it will be helpful to note that although the ratemaking issues apply to other utilities, CalWater and SJWC were the only two active participants in the workshop and other negotiations with the Branch. The term "Water Companies" represents the water utilities that negotiated with Branch.

In addition, it should be noted that a special ratemaking situation applies to Great Oaks. Great Oaks has not had a single general rate proceeding. Therefore, it does not have any adopted figures for revenues, sales, expenses, and rate base. Branch prepared pro forma workpapers (Exhibit 15) for Great Oaks' ratemaking issues. Although Great Oaks was provided a copy of Exhibit 15, it has provided no input on Branch's proposed workpapers. Branch's proposed workpapers follow the general

ratemaking guidelines of the Commission. We will use Branch's workpapers for Great Oaks' ratemaking issues.

Next, we will consider the rate relief for lost revenues. Branch and Water Companies agree that the lost revenues recorded in the memorandum account should be recovered through a surcharge imposed on utilities' quantity rates. Branch and Water Companies also agree that utilities should file advice letters to seek authority to impose such surcharge and that the surcharge rate will be based on the accumulated losses in the memorandum account as of the date of the filing of the advice letter.

While Branch and Water Companies agree on the procedure for rate relief for revenue losses, they disagree on two issues. They are:

1. Determination of Lost Revenues
2. Recovery Period for Lost Revenues

We will address these issues separately.

Determination of Lost Revenues

Water Companies recommend that lost revenues be defined as the difference between revenues at adopted sales and actual sales. Branch asserts that sales normally fluctuate $\pm 5\%$ due to changes in weather and recommends that lost revenues be defined as the difference between revenues at 95% of the adopted sales and actual sales.

Mathematically speaking, Branch proposes that lost revenues be computed using the following formula:

$$L_{Total} = \text{Sum of } L_{NR} = \text{sum of } (0.95R_n - R_p) - E_r$$

Where L_{Total} = Total loss

L_{NR} = Net monthly revenue Loss

R_n = Revenue from normalized monthly sales

R_p = Revenue from actual or recorded sales

E_r = Expense reduction due to reduced water sales

Notes 1: Total loss is computed as a sum of net monthly losses, rather than on an annualized basis, because the duration of rationing may be limited to a few months, i.e., a fraction of the year.

2. Normalized Monthly Sales - A utility's projected annual water sales are based on the adopted normalized annual water use per connection. Since the rationing was imposed for only a portion of the year and the percent of annual water used in any given month varies, we need to establish a normalized monthly use per month per connection for the appropriate portion of the year. In order to establish the monthly sales distribution pattern, Branch and Water Companies agreed to use the average of the last three years' monthly sales data prior to rationing. For utilities, with no adopted normalized annual water use, Branch and Water Companies agreed to use the average of the last five years' monthly water use per connection. (Reference Exhibit 16, p. 2, paragraph 1.)

In computing the total revenue losses due to rationing, Branch and Water Companies agreed to include all applicable categories of customers and tariff schedule.

4. E_r includes expenses which will be reduced with less water sales. These expenses are electric power cost, purchased water cost, and any other volume-related costs.

Water Companies agree with Branch's proposal except that instead of using $0.95R_n$ in the formula Water Companies recommend using $1.0R_n$.

Water Companies contend that Branch's proposal would reduce a water utility's return on equity by 20 to 25% on an annual basis. According to Water Companies, an authorized return of 12% would be lowered to a range of 9.0 to 9.6% during mandatory water rationing. Water Companies believe that Branch's proposal singles out water utilities and penalizes them for events entirely out of their control and that it chooses to ignore the Commission's favorable ratemaking treatment afforded energy utilities for lost revenues.

Water Companies argue that Branch's proposal inadequately addresses the unacceptable drought-related risks which water utilities experience. Water Companies disagree with Branch's position that water utilities should share in the financial burden caused by drought and water rationing. Water Companies maintain that water utilities are no more at fault for droughts than the energy utilities were for the oil embargo and rapid fuel price increases in the 1970s. Water Companies point out that energy utilities were provided revenue balancing accounts which allowed them 100% recovery of losses based on adopted sales as protection from the recurrence of these events. Water Companies also point out that the Commission in rejecting a similar proposal by staff in

the general rate decisions which established the electric revenue adjustment mechanisms (ERAM) for Pacific Gas and Electric Company (PG&E), Decision (D.) 93887, and San Diego Gas & Electric Company, D.93892, stated that:

"We will, however, reject the staff's proposal to limit undercollections of base rate revenues under ERAM to 5% as being unnecessary and contrary to our goal of eliminating disincentives for PG&E's pursuing cost-effective conservation measures." (CPUC 2nd, Vol. 7, p. 394.)

"We believe the Branch 5% limitation proposal defeats the purpose of the Regulatory Lag Plan. Also, this proposal may be counterproductive to the conservation ethic, since it could be a disincentive..." (CPUC 2nd, Vol. 7, p. 644.)

Further, Water Companies opine that Branch's recommendation in effect would be a 10% penalty. According to Water Companies, the Commission typically establishes water rates using a 30-year average of rainfall and temperature data. Sales and revenues are assumed to be higher in warm, dry weather and lower in cool, wet weather, but over the long term they should reflect normalized conditions. Water Companies claim that during the warm, dry years of rationing, water sales are assumed to be higher not lower than normal year sales. Thus, utilities agree that measuring sales losses from normalized sales automatically builds in a penalty and adopting Branch's recommendation will double its impact.

Finally, Water Companies contend that projected water shortages in the state will cause such a condition to appear more frequently and that unless utilities are allowed recovery of revenue losses they will have to carry an unreasonable financial burden.

In making its recommendation, Branch contends that the Commission in D.87398 has already recognized that normal weather and temperature variation could cause the actual sales in any given

year to vary $\pm 5\%$. According to Branch, sales during the drought period, due to public awareness, would have been lower than normal even without rationing.

Discussion

During the past and current droughts water use, even in districts without mandatory rationing, was below normal in Northern California. This reduction in use was a result of customers acting responsibly and voluntarily reducing consumption. When customers reduce water use voluntarily, in absence of enforced rationing, utilities are unable to recover revenue losses due to reduced sales. On the other hand, the Commission provides utilities faced with mandatory rationing an opportunity, through the memorandum account procedure, to recover their revenue losses. However, if we impose any limitation on the revenues subject to recovery we create a disincentive for the utilities to promote conservation. If we adopt the Water Branch's proposal of allowing recovery of only 95% of the normalized sales we are, in effect, putting water utilities in the awkward position of espousing conservation to their financial detriment.

In light of the projected water shortages as shown in Table 1, and the present shortages we are now experiencing, it is in the public interest to promote conservation. During this protracted drought period it is appropriately the policy of the Commission to encourage utilities to promote conservation. To this effect, it would be unfair to impose a limitation on the recovery of lost revenues due to conservation efforts.

We will adopt Branch's proposed method of computing revenue loss due to mandatory rationing, except we will substitute 100% for 95% to avoid the conservation disincentive.

Recovery Period for Lost Revenues

Branch and Water Companies agree that revenue losses due to mandatory rationing should be recovered through a surcharge to a utility's quantity rate. However, Branch and Water Companies

disagree regarding the duration for which the surcharge should remain effective.

Branch recommends that the surcharge be effective for a six-month duration. In the event rationing continues beyond the six-month period, Branch recommends that an additional surcharge rate be established. According to Branch, this procedure will allow it to track utilities' anticipated revenue needs.

Water Companies propose that the surcharge rate be based on annualized sales and continue until the termination of mandatory rationing. According to Water Companies' proposal, any over or undercollections in the revenue balancing account at the end of rationing would be offset against the utility's expense balancing account.

Water Companies contend that Branch's proposal would result in increased administrative costs, because of the need to process rate relief requests every six months. On the other hand, Water Companies contend that their proposal will lower the burden on the ratepayers because the revenue collection will be spread over a longer duration. In addition, Water Companies believe their proposal significantly reduces the possibility of overcollections and thus the risk to ratepayers.

Discussion

Both proposals for implementing a surcharge have merits. However, there are two major flaws with Branch's recommendation. First, since the surcharge would be in effect for six months regardless of the period of mandatory rationing, there is a high probability that utilities will overcollect revenues. While we recognize that droughts do not necessarily occur in six-month intervals and that utilities could apply for an additional surcharge before the end of six months, we believe that this procedure of establishing or reestablishing a surcharge every six months insures that the surcharge will extend beyond the end of mandatory rationing. While this flexibility is appealing, on the

whole it is an inappropriate ratemaking procedure which may garner public resentment.

Second, Branch's recommended procedure would greatly increase the administrative workload without a corresponding benefit. No matter how well intended Branch's proposal may be, processing multiple advice letters at six-month intervals is bound to strain Branch personnel.

Since Water Companies' proposal would establish a surcharge based on annualized sales, it would result in a lower surcharge. The surcharge would remain in effect until the end of the mandatory rationing and any over or undercollections would be transferred to the utility's expense balancing account. This procedure will prevent ratepayers from being overcharged and also provide utilities a reasonable opportunity to recover their revenue losses. Not only will Water Companies' proposal be simpler to administer, it will also fairly weigh the interests of both ratepayers and stockholders. We will adopt Water Companies' proposal to set the surcharge rate on an annualized sales basis and continue collection of the surcharge until the termination of mandatory rationing. At the termination of the surcharge, we will require utilities to offset their expense balancing accounts with any over or undercollection resulting from the surcharge.

Recovery of Extraordinary Conservation Expenses

Branch and Water Companies agree that utilities should be allowed to recover extraordinary conservation expenses resulting from the drought if these expenses are not funded by presently authorized rates. However, they disagree on the procedure for recovery of these expenses.

Water Companies propose that such expenses be recorded in a separate account and recovered through an advice letter filing at the end of the drought. Branch, on the other hand, recommends a prospective approach for the recovery of extraordinary conservation expenses. Branch proposes that utilities with projected

conservation expenses in excess of 1% of their gross revenues should file an advice letter requesting an offset increase. Branch does not favor tracking of actual expenditures and revenues.

Water Companies contend that their proposal would provide Branch the opportunity to review the reasonableness of actual expenses, encourage utilities to promote conservation, and eliminate potential disagreement over the amount of prospective rate.

Branch believes that extraordinary conservation expenses incurred during the drought should be recovered in the same manner as expenses incurred under a Commission-approved conservation plan. Branch does not favor deferring the recovery of extraordinary conservation expenses until after the drought ends because it believes that some utilities will be financially unable to continue their conservation efforts without rate relief.

Discussion

A reasonable expenses recovery plan would allow the Commission an opportunity to review the reasonableness of the expenses, and encourage utilities to promote conservation. Allowing utilities to record extraordinary expenses in a separate account and deferring offsetting rate relief until after the drought would facilitate achievement of that goal.

Turning to Branch's proposal of a prospective recovery approach, we believe that such a proposal would provide utilities an incentive to overestimate conservation expenditures; first, to qualify for a surcharge rate by projecting expenses which exceed 1% of gross revenues and second, to maximize surcharge recovery. Once a surcharge rate is established utilities will have an incentive to minimize actual expenses, since there is no balancing of surcharge revenues with actual conservation expenses.

We will allow utilities to record drought-related extraordinary conservation expenses which are not being recovered.

through present rates in a separate account and allow their recovery through a surcharge.

As to Branch's proposal of allowing recovery of expenses only if the expenses exceed 1% of the utility's revenue, we believe that the proposal is in keeping with the Commission's policy of avoiding frequent rate changes. We will only entertain requests for offset rate increases for extraordinary conservation expenses if they exceed 1% of a utility's gross revenues. Extraordinary conservation expenses less than 1% of a utility's gross revenues should be added to and recovered through the utility's balancing

Balancing Account

A balancing account differs from a memorandum account in two ways. A balancing account tracks Commission-approved variations in income or expenses, and a balancing account has both income and expense entries (thus the "balance" in its description). A memorandum account, on the other hand, is authorized by the Commission only to track items that the Commission will later consider the reasonableness of. Similarly, this account normally only tracks either expenses or revenues, and no "balance" is involved.

Branch and Water Companies disagree regarding the appropriate ratemaking mechanism to track lost revenues due to mandatory rationing. Branch believes that the memorandum account procedure which is currently being used is the appropriate procedure to allow utilities recovery of lost revenues due to mandatory rationing.

Water Companies propose that a balancing account be used to track lost revenues. According to Water Companies, under their proposal, there would be no over or undercollections because recovery would exactly match losses. The proposed balancing account would start with the initiation of the memorandum account and continue in place until new utility rates are authorized in the

next general rate case. Water Companies contend that balancing in all accounts will take the guesswork out of establishing appropriate rates during water rationing because when rationing is initiated the available information is fraught with speculation and is highly unreliable. Water Companies opine that a balancing account will equally and fairly protect a utility from overestimated sales and the customer for underestimated sales. Water Companies contend that in the absence of a balancing account, no recognition will be given to the effects of residual conservation, which immediately follows the end of rationing, and the utilities will suffer significant revenue losses.

Branch opposes balancing accounts for several reasons including (1) balancing accounts have historically been used for ongoing expenses rather than short-term changes in revenues, (2) true balancing accounts would guarantee utility income and earnings, (3) the incentive for economical management of the utility would be removed, (4) balancing accounts were not authorized during the 1977 drought, and (5) a long-term in-depth study for the entire industry should be conducted prior to adoption.

Discussion

The memorandum account procedure which is now being used allows utilities to track all revenue losses due to drought-related sales reduction below the normalized level. According to the procedure for disposition of the memorandum account, adopted in this opinion, utilities will be able to eventually recover all their revenue losses. The adopted procedure is also consistent with Commission policy dealing with the disposition of special accounts.

In an earlier discussion we adopted a method of computing revenue losses to be recovered due to mandatory rationing. The funds to be recovered are ones booked in those memorandum accounts that have been tracked up until the effective date of this order.

We will allow the memorandum accounts to remain open to continue to track conservation expenses and sales revenue which vary from forecasted sales revenue due to conservation efforts by the utility or by its customers, but we reserve the disposition of funds in those accounts that are tracked after the effective date of this order to be contingent on Commission approval of the utility's Water Management Program, as outlined in a later section in this decision.

In phase II of this OII we will ask water utilities who wish recovery of all or part of memorandum account funds to file an application containing a Water Management Program as specified later in this order. We will also require all Class A water utilities to file applications containing such plans unless they can demonstrate that water conservation is unworkable or not needed.

The Commission recognizes that different types of conservation efforts may affect a water utility's annual revenues. Mandatory rationing may be imposed, in which usage goals and fines are set by local or state authorities, or mandatory conservation may be imposed, which stops short of fines but allows flow restrictions and imposes costs, or finally voluntary conservation may occur where perceptions of drought and local encouragement to conserve may affect water sales. All types of conservation programs are recognized by the Commission as affecting water sales, and therefore the approval of an effective long term Water Management Program proposed by the utility is not contingent on any one form of rationing or water conservation being established.

In addition the Commission advises water utilities with such memorandum accounts that to the extent protection against fluctuations in revenue sales protects companies against the normal business and financial risk of the water business, any water utility asking for such protection must accept that the Commission will also adjust the company's rate of return downward to reflect

such reduced risk. Any reduction in rate of return will be accomplished by an offset against amounts in the memorandum (to) reserve accounts, in the event that those amounts are approved for recovery by the utility.

Disposition of Penalty Monies

The Commission authorized water utilities to collect fines or penalty money from customers for using more than their allotted allotment of water during mandatory rationing. Utilities were required to place fines in a suspense account until further Commission order.

It is important to discuss the circumstances surrounding the penalty collection by each utility or district of a utility before deciding about the disposition of the penalty money. Accordingly, a brief description of penalty money collected by utilities follows.

CalAm was authorized to implement a rationing plan for its Monterey District by Resolution W-3431 dated February 24, 1989. In the case of CalAm's Monterey District, the Monterey Peninsula Water Management District has been imposing and collecting fines for excessive water use.

SJWC and Great Oaks were authorized to implement their rationing plans by Resolutions W-3440 (effective April 12, 1989) and W-3444 (effective April 26, 1989), respectively. Also, CalWater was authorized to implement its rationing plan for the Los Altos Suburban District by Resolution W-3446 (effective May 26, 1989). These plans include authorization to impose penalties on customers for water use over their allotment.

Slightly different circumstances surround the collection of penalty money for CalWater's Bear Gulch, San Carlos, San Mateo, and South San Francisco Districts (Peninsula Districts). These districts receive all or part of their water supply from the City of San Francisco Water Department (City). On April 28, 1988, City imposed mandatory rationing on water utilities for which it

provides water supply. City's rationing plan included fines upon water utilities for water use in excess of their allotment, and required that mandatory rationing with penalties be imposed on customers of these utilities.

As a result of City's rationing plan, the Commission, on July 8, 1988, approved a mandatory rationing plan for the Peninsula Districts by Resolution W-3404. The resolution authorized CalWater to collect and place into a suspense account penalties from customers for use in excess of their allotment for eventual return to its customers. The Commission later authorized CalWater to use funds in the suspense account to pay fines imposed by City on the Peninsula Districts.

While CalWater had a procedure in place to collect penalties from its customers and to pay penalties imposed by City, it had no procedure in place to recover revenue losses due to mandatory rationing for its Peninsula Districts. Therefore, on May 24, 1988, CalWater filed A.88-05-045, requesting authority to increase its rates for the Peninsula Districts to offset the loss of revenue due to rationing and to establish balancing accounts to accrue the effects of sales reduction. D.89-04-046 did not grant CalWater's request for rate increase and establishment of balancing accounts but authorized it to establish memorandum accounts for the Peninsula Districts, beginning April 12, 1989, to record its reduced sales and costs during the rationing period. The memorandum accounts were to terminate upon the occurrence of any of several conditions including the termination of mandatory rationing by City.

City terminated its rationing on May 9, 1989. Thus, CalWater was allowed to record reduced sales in memorandum accounts for only 27 days, while experiencing the loss of revenues for the Peninsula Districts due to rationing for over nine months. Consequently, CalWater requests authority to apply the remaining funds in the suspense account to offset rationing-related revenue

losses in the Peninsula Districts which occurred before the establishment of the memorandum accounts.

Position of Parties Regarding Disposition of Penalty Money

The disposition of the penalty involves two separate issues: first, the disposition of penalties collected by SJWC, Great Oaks, and CalWater for its Los Altos Suburban District; second, special conditions applicable to CalWater's Peninsula Districts.

As to the first issue, Branch and Water Companies agree that monies collected in the penalty funds should be used to offset net revenue losses recorded in the memorandum accounts, and fines levied by a utility's Wholesaler. As to any remaining funds in the suspense account, parties agree that such funds be refunded to customers by incorporating them into the utility's expense balancing account.

In addition to Branch, SJWC, and CalWater, the City of San Jose (San Jose), the Water Commission of Santa Clara Valley (Water Commission), and the Santa Clara County Intergovernmental Council (IGC) provided testimony regarding the disposition of penalty monies collected by SJWC. San Jose, Water Commission, and IGC request that rather than refunding the excess penalty funds to the customers, the funds should be applied to the reclamation project being undertaken by San Jose and the Santa Clara Valley Water District or in the alternative to set aside the funds for specific conservation projects.

Branch and SJWC oppose the proposal by governmental bodies on grounds that such transfer of funds would result in SJWC's customers subsidizing noncustomers. They contend that this would be unfair to SJWC's customers.

Next, we will consider special conditions applicable to the Peninsula Districts. As mentioned earlier CalWater was allowed to record its rationing-related reduced sales in the memorandum

account for only 27 days while experiencing reduced sales for over nine months. CalWater requests that any penalty funds be used to offset its revenue losses incurred prior to the establishment of the memorandum account for the Peninsula Districts, i.e., for the period July 1988 to April 1989. According to CalWater, in the absence of such authorization, it will shoulder almost the entire financial burden of the rationing program and consequently face poor earnings.

Branch opposes CalWater's request for penalties to offset the Peninsula Districts' revenue losses from July 1988 to April 1989 on the grounds that this would constitute retroactive ratemaking.

In addition to its objection to CalWater's proposal on grounds of retroactive ratemaking, Branch cites the stipulation reached between Branch and CalWater in A.88-05-045 which included the terms for establishing the memorandum accounts for the Peninsula Districts. D.89-04-046 which adopted the stipulation and authorized the establishment of the memorandum account characterized the stipulation as follows:

"Under these circumstances, memorandum accounts as proposed in the stipulation are justified. They will allow the possible recovery, in a future order, of revenue losses that may be incurred beginning with the effective date of this order and continuing while I.89-03-005 proceeds. Because of the prohibition on retroactive ratemaking, CWS would not otherwise be entitled to recovery of any such revenue losses. The provision for memorandum accounts is consistent with our discussion in the order instituting I.89-03-005." (Emphasis added, D.89-04-046, p. 8.)

Branch contends that CalWater's request is contrary to the terms of the stipulation and should be denied.

Branch also cites the language of Resolution W-3404 in Finding number 5:

"CWS's proposal to accumulate the amount collected under its excess usage penalty rate in a suspense account for eventual return to its customers in a manner to be determined by the Commission rather than accounting for them as utility income is appropriate."

Discussion

We believe that the proposal by Branch, SJWC, and CalWater to use penalty funds to offset net revenue loss recorded in the memorandum accounts and fines levied by a utility's wholesaler is reasonable. We also believe that any remaining funds in the suspense account should be refunded to the customers by incorporating them into the utility's expense balancing account. We will adopt the proposal

Next, we will consider the request by San Jose, Water Commission, and IGC for using the fines collected by SJWC for reclamation projects in Santa Clara County. While we appreciate the governmental agencies' efforts in reclamation and conservation, we question the fairness of the proposal. By approving the proposal, we would require the customers of SJWC to support programs that would benefit some people who are not SJWC's ratepayers. Given these facts, the Commission by approving the proposal would, in effect, be levying taxes for general governmental purposes. While the Commission has the authority to fix rates and establish rules for public utilities, it does not have authority to levy taxes. On the other hand, San Jose or the County of Santa Clara do have the power to tax.

We will deny the request by San Jose, Water Commission, and IGC to use penalty money collected by SJWC for reclamation projects in Santa Clara County.

Finally, we will consider CalWater's request that penalty funds collected for the Peninsula Districts be used to offset its revenue losses incurred prior to the establishment of the memorandum account for the districts. In authorizing CalWater to

establish memorandum accounts, the Commission made it clear that CalWater will only be allowed the possible recovery of "revenue losses that may be incurred beginning with the effective date of this order." (D.89-04-046, p. 8.) The language is clear and plain. It follows that "revenue losses incurred" prior to "the effective date of this order" are not subject to "possible recovery". The resolution which authorized the collections of penalties (W-3404) provided clearly that they would eventually be returned to customers. Nothing subsequently has altered this intended disposition. We will deny CalWater's request to recover any revenue losses incurred before the effective date of D.89-04-046.

Other Issues

In addition to the water supply and rate relief issues, the parties raised certain other issues which need to be addressed. The discussion of those issues follows.

Normalized Water Consumption for SJWC

D.89-04-041 authorized SJWC to establish a memorandum account to record the reduced revenues resulting from the imposition of mandatory rationing. D.89-04-041 was issued in response to SJWC's petition, in its general rate case application (A.88-09-029), for emergency rate relief to offset expected revenue losses due to mandatory rationing. For the purpose of relief sought in the petition, SJWC adopted Branch's estimate for 1989 sales (which is based on water use per customer) included in Branch's exhibits (Exhibit 16). D.89-04-041 adopted the stipulated consumption estimates and transferred the issues related to memorandum account to this proceeding. This is evident from Ordering Paragraphs 1a and 1d of D.89-04-041 which state:

- "1. Petitioner shall establish a memorandum account to accrue changes in revenues, sales, sales-related expenses and penalties

due to the mandatory water rationing plan (Advice Letter No. 216) until further notice by this Commission under the following conditions:

"a. Petitioner shall use CACD consumption and rate of return estimates contained in Exhibit 16 in calculating over and undercollections. Petitioner's proposed method of calculating over and undercollections shall be used as an interim measure."

"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 the petition shall be consolidated with I.89-03-005. No costs, expenses or penalties contained in the memorandum account shall be placed into rates prior to Commission authorization."

In October 1989, the Commission issued the final order, D.89-10-038, in A.88-09-029. Ordering Paragraph 7 of D.89-10-038 states:

"7. The consumption estimates authorized in this decision shall be used in calculating any loss revenues in SJW's memorandum account from the date the account was approved in D.89-04-041."

Branch contends that the above ordering paragraph inadvertently constitutes retroactive ratemaking. According to Branch, quantities adopted in October should be used prospectively; to apply the quantities to a prior six-month period would be retroactive. SJWC disagrees.

In addition to pointing out the possibility of retroactive ratemaking resulting from Ordering Paragraph 7 of D.89-10-038, Branch, on March 27, 1990, filed a petition to modify the language of the paragraph. In response to Branch's petition

the Commission issued D.90-05-068, which clarifies that in calculating any revenue losses from April 12, 1989 (the effective date of D.89-04-041) to October 12, 1989 (the effective date of D.89-10-038), the consumption estimates adopted in D.89-04-041 shall be used. Revenue losses incurred after October 12, 1989 will be computed using the consumption estimates adopted in D.89-10-038. There is no need to address this issue any further.

Motion to Delay Determination of a Limited Portion of I.89-03-005

As mentioned earlier, D.89-04-046, in A.88-05-045, authorized CalWater to establish memorandum accounts for its Peninsula Districts. The terms of establishing the memorandum accounts were based on a stipulation between all parties including CalWater and Branch. According to the stipulation, parties agreed that pending termination of mandatory rationing, CalWater should be authorized to establish memorandum accounts to prospectively record revenue loss and related changes in expenses due to rationing-related loss of sales in its Peninsula Districts. D.89-04-046 further ordered that rate relief for revenue losses recorded in the memorandum accounts and the disposition of penalty monies collected during rationing will be considered in this proceeding. Ordering Paragraph 6 of D.89-04-046 which addresses the issue of penalty monies states that:

- "6. The disposition of monies collected by CWS through penalty charges which were authorized by Resolutions W-3404 and W-3412 shall be resolved in I.89-03-005."

Based on its interpretation of Ordering Paragraph 6, CalWater requests that the penalty monies collected in the Peninsula Districts be used to offset revenue losses incurred before the memorandum accounts for the districts were established by D.89-04-046.

This CalWater request has caused concern for the Branch in A.88-05-045. Branch contends that CalWater requests

compensation for lost revenues beyond the scope established in D.89-04-046. Branch insists that CalWater incorrectly interprets Ordering Paragraph 6 and accordingly, on April 11, 1990, it filed a petition to modify Ordering Paragraph 6 of D.89-04-046 and a motion to delay the consideration of disposition of penalty monies for the Peninsula Districts. In the motion, Branch expresses concern that a misinterpretation of Ordering Paragraph 6 may inadvertently lead the Commission to make a legally erroneous decision in I.89-03-005.

While we understand this concern, we believe that the same concerns have already been raised in this proceeding (I.89-03-005). Our decision regarding the disposition of penalty monies for the Peninsula Districts fully addresses Branch's concern and is in strict conformance of the provisions of D.89-04-046. We do not believe that any useful purpose will be served by delaying the decision regarding the disposition of penalty monies for the Peninsula Districts. We will deny the motion.

As to the petition to modify Ordering Paragraph 6 of D.89-04-046, we have interpreted the paragraph correctly in making our decision regarding the penalty monies. There is no need to modify it.

Closing the Proceeding in A.88-05-045

Paragraphs 1.C and 2. of the stipulation adopted in D.89-04-046 provide:

- "C. A determination of the amount of drought-related rate relief, if any, to be established in each district and to be applied to the respective Memorandum Accounts shall be deferred in this proceeding until there has been a determination of the need for such rate relief, and the parameters, if any, thereof are expressed, in forthcoming Commission decision(s) or resolution(s) in I.89-03-005. It is the intent and agreement of the Parties that unless I.89-03-005 fails to provide parameters for rate relief for loss of sales revenue due to drought conditions, rate relief shall be

authorized or denied (as the case may be) in this proceeding using the same parameters established in I.89-03-005, taking into account the accruals in the Memorandum Accounts and any rate relief received by CalWater for loss of sales revenue due to drought conditions in or pursuant to I.89-03-005.

"2. The Parties further stipulate that on the effectiveness of an order by the Commission implementing this Stipulation, this proceeding shall be suspended pending a decision by the ALJ to reactivate or a motion to reactivate to be filed by either Staff or CalWater. In addition and in any event, within 30 days of the issuance of a decision or resolution in I.89-03-005, the terms of which establish the basis for rate relief (if any) in this proceeding as provided in Paragraph 1(C) above, CalWater shall file a motion to reactivate this proceeding so that appropriate rate relief, if any, may be authorized.

As provided in paragraph 2 above, D.89-04-046 suspended the proceeding in A.88-05-045. Ordering Paragraph 5 of D.89-04-046 states:

"5. This matter is suspended in accordance with the stipulation."

Turning to the provisions of paragraph 1.C of the stipulation, we note that all drought-related rate relief issues, including CalWater's request for balancing accounts, have been determined in this order. Accordingly, the purpose for which this proceeding has remained suspended is no longer valid. Although the stipulation has provisions to reactivate this proceeding, the need to reactivate the proceeding has been removed as a result of this order. We will close the proceeding in A.88-05-045.

Self-Initiating and Terminating
Mandatory Rationing Plans

During 1989 various public water districts imposed rationing on water utilities in their area. The water utilities had to seek Commission approval to impose mandatory rationing on their customers. The Commission approved all requests by water utilities to implement their rationing plans. However, due to procedural and logistical problems, the Commission approval was not granted simultaneously with the imposition of rationing by the public water districts and was delayed by a few weeks. Similar delays in Commission approval were experienced upon the termination of rationing by the public water districts.

In order to avoid such delays in the future, SJWC recommends that the Commission adopt a procedure which will include preapproved rationing plans in a utility's tariffs. SJWC proposes that the rationing plans included in a utility's tariffs could then be implemented or terminated by the utility using Commission-approved trigger mechanisms.

Branch does not oppose the concept. Branch believes that specific rationing plans should be adopted for each utility. However, Branch does not believe that a utility should be allowed to initiate or terminate rationing on its own initiative. According to Branch, with adopted rationing plans already in a utility's tariffs, the Commission could quickly activate or terminate rationing.

Discussion

If public water districts call for rationing, swift Commission action is needed to allow water utilities to implement their rationing plans. Allowing water utilities to add preapproved mandatory rationing plans to their tariffs will be a significant step in expediting Commission action. We will allow utilities to include mandatory rationing plans to their tariffs after such plans are approved by the Commission.

Next, we will consider the question of initiating or terminating rationing for water utilities. In order to do that, it is important to examine the impact of certain sections of the California Water (CW) Code. There are three sections relevant to our considerations. They are as follows:

"§ 350. Declaration

"The governing body of a distributor of a public water supply, whether publicly or privately owned and including a mutual water company, may declare a water shortage emergency condition to prevail within the area served by such distributor whenever it finds and determines that the ordinary demands and requirements of water consumers cannot be satisfied without depleting the water supply of the distributor to the extent that there would be insufficient water for human consumption, sanitation, and fire protection."

"§ 351. Public hearing

"Excepting in event of a breakage or failure of a dam, pump, pipe line or conduit causing an immediate emergency, the declaration shall be made only after a public hearing at which consumers of such water supply shall have an opportunity to be heard to protest against the declaration and to present their respective needs to said governing board."

"§ 357. Regulations and restrictions; conflict with other laws; public utilities commissional approval

"If the regulations and restrictions on delivery and consumption of water adopted pursuant to this chapter conflict with any law establishing the rights of individual consumers to receive either specific or proportionate amounts of the water supply available for distribution within such service area, the regulations and restrictions adopted pursuant to this chapter shall prevail over the provisions of such laws relating to water rights for the

duration of the period of emergency; provided, however, that any distributor of water which is subject to regulation by the State Public Utilities Commission shall before making such regulations and restrictions effective secure the approval thereof by the Public Utilities Commission."

(NOTE: Other pertinent sections of the CW Code are: 352 Notice of Hearing; 354 Priorities; 355 Duration of Regulations and Restrictions; 356 Regulations and Reductions, Denial of Applications, Discontinuing Service for Violation; and 358 Judicial Review.)

It is evident from the above that there are three essential steps leading to implementation of rationing by a water utility. They are (1) declaration of water shortage emergency by a public water supplier, (2) public hearing, and (3) Commission approval.

Turning to the question of Commission approval, we believe that a utility should not be allowed to initiate or terminate rationing on its own. CW Code § 357 requires a formal Commission approval for implementing rationing. Therefore, we will continue our current procedure of requiring utilities to file advice letters seeking authorization to implement or terminate rationing. While the Commission has been quite responsive in authorizing utilities to implement their rationing plan, its schedule of meetings can delay the approval by two weeks. This situation could be improved by expediting the processing of advice letters by Branch. Since there is a 10-day notice requirement to place matters on the Commission agenda, Branch, upon receipt of an advice letter proposing a rationing plan, should immediately place the matter on the agenda for which the advice letter meets the notice requirements.

CalWater's Petition to Set Aside Submission

On April 20, 1990, CalWater filed a petition to set aside submission of Phase I of the proceeding for the limited purpose of establishing a memorandum account for its Stockton District.

The City of Stockton has adopted restrictions on water usage within Stockton. According to CalWater, this action by the City of Stockton would result in a revenue loss of approximately \$750,000 in its Stockton District.

Therefore, CalWater requests authority to establish a memorandum account to record lost revenues, savings in operating expenses and extraordinary conservation expenses.

While we realize that CalWater will be unable to recover the revenue loss due to reduced water use, we do not believe it necessary to set aside the submission of Phase I of this proceeding. This proceeding still remains open to address additional drought-related issues, and we will address CalWater's request in a separate order and deny its request to set aside submission of Phase I of the proceeding.

Comments on the Proposed Decision

CalAm, CalWater, Park Water Company, SJWC, Southern California Edison Company (Edison), and Southern California Water Company have filed comments on the ALJ's proposed decision. Reply comments were filed by Branch. Based on our review we believe that, other than correction of errors, the following modifications to the decision should be made:

Recovery of Extraordinary Conservation Expenses

It was our intent that amounts less than 1% would not be granted immediate rate relief but instead would be deferred to the balancing account for later recovery subject to the rules governing balancing accounts. Accordingly, we have revised pages 25 and 53.

Special Provisions for Edison's Rationing Plan

Edison supplies water service to the Santa Catalina Island. Due to the limited water supplies on the Island, Edison has had a water rationing plan in place long before the current drought. Specifically, on April 25, 1977, Edison filed Advice Letter 16-W with the Commission to establish the Santa Catalina Island Fresh Water Rationing Plan in its water tariffs. At that time, Edison complied with the procedures set forth in Sections 350-358 of the CW Code. In Resolution W-2122, dated May 17, 1977, the Commission authorized Edison to establish the Water Rationing Plan as proposed.

Under the tariff provisions of the Rationing Plan, implementation or termination of the Rationing Plan is triggered by the level of fresh water in Edison's Middle Ranch Reservoir (reservoir), which is the primary source of fresh water on Santa Catalina Island. Water rationing is accomplished pursuant to the guidelines set forth in Rationing Phases 1 through 4 of the Rationing Plan.

Basically, when the level of fresh water in the reservoir is at or above 600 acre-feet there are no mandatory restrictions on fresh water use. When the level of fresh water in the reservoir drops below 600-acre feet, Phase 1 restrictions are placed upon the use of fresh water which is followed by more restrictive Rationing Phases 2 through 4 as the level of fresh water in the Reservoir decreases. Movement among the various rationing phases is repeated as often as conditions warrant. Customers are notified, by first-class mail, and in the local newspaper at least 15 days prior to the effective date of the implementation of the Rationing Plan and of changes from one phase to another.

To recognize the special provisions in Edison's tariff, we have added new Finding of Fact 44a and modified Ordering Paragraph 7 as follows:

Findings of Fact

44a. Utilities that already have Commission approval to implement and terminate mandatory rationing, as required, based on predetermined conditions set forth in their tariffs, do not need to file advice letters to seek further Commission approval to implement or terminate mandatory rationing.

Ordering Paragraph

7. Water utilities shall file an advice letter to seek Commission authorization to initiate or terminate mandatory rationing, except that utilities with Commission-approved rationing plans in their tariffs that allow for implementing and terminating mandatory rationing, as required, based on predetermined conditions, do not need to file an advice letter to seek further Commission authorization.

Decision 90-07-067

In Decision 90-07-067, the Commission gave utilities the authority to establish memorandum accounts to track conservation expenses and related revenue fluctuations. In that decision we reserved the disposition of these memorandum accounts to further Commission order. To the extent that we are ordering class A utilities, and allowing class B, C, and D utilities to file Water Management Programs, which are outlined in a later section in this decision, we will make recovery of funds either in whole or in part in memorandum accounts established pursuant to Decision 90-07-067 contingent upon Commission approval of the utility's Water Management Program.

Class A water utilities who provide evidence that a water conservation plan is not needed or not workable for their company may be exempted by the Commission from filing an application containing a Water Management Program. However, all other Class A water utilities must file such an application no later than 90 days following the effective date of this order. Class B, C, and D

utilities may also file such an application no later than 90 days past the effective date of this order.

Each application may be specific to the requirements of the water utility. Each plan should contain at the minimum the elements described in the section "Contents of a Water Management Program" below. In addition to these basic elements applicants are encouraged to recommend innovative approaches to water conservation, and to propose regulatory incentives to encourage water conservation programs which may benefit ratepayers and investors in the long term.

Finally, applicants should recognize that approval of utility applications which include reduced business and financial risk through protection against sales fluctuations either greater or less than forecasted sales will include appropriately adjusted returns on equity. The basic precept of rate of return regulation is to match the business and financial risk of the utility with appropriate return on equity. When one element of the equation, risk, is reduced, then the opposing side of the equation, return, must also be reduced to keep the fundamental relationship in balance.

As a result, when utility file their applications, recovery of amounts in memorandum accounts dating from July 18th or dating from the effective date of this order for those utilities who have already established memorandum accounts and whose expenditures to date are disposed of in this order, utilities should expect those funds in whole or in part to be offset to reflect lowered rates of return, where the risk of the utility filing the application is found to be reduced. This reduction in rate of return will be considered necessary only if the applicant requests protection from any risk that sales might vary from the adopted forecast. To the extent that the utility retains that risk, adjustment of rates of return is unnecessary.

Phase II

Need for a Water Management Program

With the present drought conditions and projected long term water shortages, as shown in Table 1, the record shows that significant conservation programs are necessary not only in the short term but possibly continuing through the long term.

In his prepared testimony dated June 12, 1989 on page 6, Dr. Timothy H. Quinn, MWD's Administrator of Conservation and Water Management, states:

"Through the early 1970's, Southern California had virtually no chance of experiencing a significant shortage. In contrast, by the early 1990's, water demands could exceed currently available supplies 10 percent of the time -- a degree of risk for economic disruption and inconvenience that would not be acceptable in any other public industry. By 2000, we estimate that supplies from existing sources would be inadequate to meet demand an alarming 80% of the time."

To protect the short and long term interests of both residents and business that consume water, the Commission must consider the serious threats faced by the reliability of the water supplies in the state.

To achieve this long term strategy of water use, the Commission will require all Class A water utilities to submit a Water Management program. In addition, any Class B, C, or D water utility may file a Water Management program at their option. We are not requiring smaller utilities to file a program because as seen in an earlier table on utility responses to the drought they have not been affected by the same magnitude by the drought as have been the Class A utilities.

Contents of Water Management Program

The Water Management Program (WMP) must, at a minimum, address the issues listed below. Additional direction is available

from the Commission's Water Utilities Branch, and each utility should work closely with the Branch as it develops its plan.

The plan should not be addressed at reducing reasonable uses of water. There are many situations in every utility's service territories where water can be saved or used more efficiently. It is not the Commission's intent to change the lifestyle or reduce safety, productivity or growth potential of any part of the state by imposing this planning process. There are enough opportunities to reduce waste, change attitudes and improve utilization to have a significant impact on water use, without affecting quality of life.

Each utility should submit an overall company plan. In addition, in recognition of the fact that some utilities have very diverse districts, each utility with more than one district should submit a separate plan for each district.

1. Clear and Specific Goals

Each WMP must include clear and specific goals. The goals should be objective (i.e., a reduction in water usage of ten percent over expected usage) and include a timeframe (i.e., by January 1, 1991). This section of the plan should describe how the plan will be advertised and how it will motivate customers to conserve. This part of the plan should also describe how the plan will be coordinated between the utility and municipal, public service and conservation organizations in order to achieve maximum effectiveness.

2. Multiple Approaches

No plan should rely on just one or two programs. If some of the programs are not effective, the overall plan will not be successful. The utility should plan multiple approaches to conservation and describe these approaches succinctly.

This section should be customer specific. Residential customers may need different conservation programs than industrial customers or commercial customers. Apartment complexes should

receive adequate attention, as should any facility where cost may be separated from usage. The utility should work with the customer to develop programs that meets each group's needs.

These programs might include residential water audits, water recirculation and blending for industrial customers, landscape modification and maintenance information, plumbing code changes and maximum use of wastewater. The utility should diligently study this area and develop innovative and creative programs to minimize water use.

The utility must also address its internal program. Each plan must include a section on the utility's effort to eliminate waste. This part of the plan might include procedures to reduce dam leaks and reservoir spills, improve leak detection and responsiveness of leak repair crews and minimize hydrant and main flushing.

3. Long term

The Commission is not looking for quick-fixes. The WMP process should be directed at long-term solutions. Changes in building ordinances, and retrofitting existing facilities, are two examples of long-term programs. The utility should not feel reluctant to work with any and all responsible agencies in developing this plan.

This section should include a discussion of the WMP and how it fits into the utility's resource planning process. The WMP should be an integral part of the utility's plan for meeting customer growth.

4. Cost effective

As with any public program, there will be levels of effectiveness. The utilities should carefully analyze each program for prospective benefits versus costs. Department of Water Resources has provided a computer program called WaterPlan to provide this kind of analysis. The utilities should consider use

of this and other existing analytical aids to perform true cost-benefit analyses.

5. Trackable

The utility should provide a description of the method it will use to evaluate and track the effectiveness of the program. The Commission is looking for truly useful programs, not window-dressing. The proposed programs must be open to analysis, both of impact and cost. This part of the report should also include the proposed method that the Company will use to keep the Commission apprised of the progress of the WMP.

6. Incentive-based

In this section the utility should address incentives, both to the customers and to the utility. If the utility develops proposals for incentives that the Commission might want to consider in the future, a description should be provided here. The Commission is looking for fair and equitable incentive programs in all areas of regulation and the utility's conservation plan should be designed with that perspective.

Findings of Fact

1. California faced severe water shortages in 1989 due to limited precipitation during 1987 and 1988.
2. On March 8, 1989, the Commission instituted I.89-03-005 into measures to mitigate the effects of drought on regulated water utilities.
3. The Commission authorized certain utilities or districts of utilities to implement mandatory rationing plans in their service areas.
4. The Commission authorized the utilities with mandatory rationing to establish memorandum accounts to accrue revenue losses due to reduced sales and corresponding changes in water production costs.
5. Branch and Water Companies disagree about the method of calculating revenue losses.

6. Water Companies recommend that revenue losses be defined as the difference between revenues at adopted sales and actual sales.

7. Branch recommends that revenue losses be defined as the difference between revenues at 95% of the adopted sales and actual sales.

8. The staff proposal to limit recovery of revenues to 95% of adopted sales is a disincentive to conservation and is counterproductive to public policy which supports conservation.

9. Adopting Branch's proposal of computing revenue losses due to mandatory rationing, but allowing 100% recovery rather than 95%, will enable utilities to avoid the conservation disincentive.

10. Branch and Water Companies believe that revenue losses due to mandatory rationing should be recovered through a surcharge to utilities' commodity rates.

11. Branch and Water Companies disagree regarding the duration for which the surcharge should remain effective.

12. Branch recommends that the surcharge be effective for a six-month duration.

13. In the event rationing continues beyond the six-month period, Branch recommends that an additional surcharge rate be established.

14. Water Companies propose that the surcharge rate be based on an annualized sales and continue until the termination of mandatory rationing.

15. Water Companies propose that any over or undercollections in the revenue balancing account at the end of the rationing be offset against utilities' expense balancing account.

16. Water Companies' proposal would be simpler to administer and would result in a lower surcharge.

17. Water Companies' proposal would prevent ratepayers being overcharged and provide utilities a reasonable opportunity to recover their revenue losses.

18. Branch and Water Companies disagree on the procedure to recover drought-related extraordinary conservation expenses which are not being funded by a utility's presently authorized rates.

19. Water Companies propose that extraordinary conservation expenses be recorded in a separate account and recovered through an advice letter filing at the end of the drought.

20. Branch proposes that utilities with estimated conservation expenses in excess of 1% of their gross revenues should file an advice letter requesting an offset increase.

21. Water Companies' proposal for recovery of conservation expenses will allow an opportunity to review the reasonableness of the actual expenses and encourage utilities to promote conservation.

22. Branch's proposal will give utilities the incentive to overestimate their conservation expenses to qualify for the surcharge and once a surcharge is established will give utilities an incentive to minimize their conservation expenses.

23. Branch's proposal of allowing recovery of expenses recorded in a special account only when such expenses exceed 1% of the utility's gross revenue is in keeping with the Commission's policy of avoiding frequent rate changes. Extraordinary conservation expenses less than 1% of a utility's gross revenues should be added to and recovered through the utility's balancing account.

24. Branch and Water Companies disagree regarding the appropriate ratemaking mechanism to track revenue losses due to mandatory rationing.

25. Branch believes that the memorandum account procedure is the appropriate procedure to utilities' recovery of revenue losses due to rationing.

26. Water Companies propose that a balancing account be used to track lost revenues due to rationing.

27. The memorandum account procedure allows utilities an opportunity to track and recover all reasonable revenue losses due to rationing.

28. Only funds tracked in the existing memorandum accounts up to the effective date of this order are allowed to be recovered at this time.

28a. All funds tracked in memorandum accounts from the effective date of this order, including funds tracked in memorandum accounts established pursuant to Decision 90-07-067, are to be disposed of contingent upon Commission approval of a utility's Water Management program.

28b. A Commission decision which provides that the water utility shall be allowed recovery of amounts in memorandum accounts which reflect the difference between actual water sales and forecasted water sales (so that the forecast is met each year either through refund if the forecast is exceeded or rate increases if it is not reached) constitutes protection against sales risk, a primary risk of business in the water industry. Elimination of such risk shall be accompanied by a reduction in recovery of the amounts in the memorandum accounts. These amounts will be offset either in whole or in part to reflect lower authorized rates of return.

29. The Commission authorized utilities to collect fines from customers for using more than their allotment of water during rationing.

30. Utilities were required to place the collected fines in a suspense account.

31. The disposition of penalty monies in suspense accounts involves two separate issues: (1) the disposition of fines collected by SJWC, Great Oaks, and CalWater's Los Altos Suburban District; and (2) special conditions applicable to CalWater's Peninsula Districts.

32. Branch and Water Companies propose that monies collected in the penalty funds should be used to offset net revenue losses recorded in the memorandum accounts and fines levied by a utility's wholesaler. The remaining funds should be refunded to the rate paying customers by incorporating them into a utility's expense balancing account.

33. San Jose Water Commission and IGC propose that rather than refunding excess penalty funds to the customer, the funds should be applied to the reclamation project being undertaken by San Jose and the Santa Clara Valley Water District or in the alternative to set aside the funds for specific conservation projects.

34. Adopting the proposal by San Jose, Water Commission, and IGC would in reality be requiring the Commission to levy taxes for general governmental purposes.

35. The Commission does not have authority to levy taxes.

36. CalWater requests that penalty funds collected for the Peninsula Districts be used to offset the revenue losses incurred prior to the establishment of memorandum accounts for the districts.

37. In authorizing CalWater to establish memorandum accounts for the Peninsula Districts, the Commission made it clear that CalWater could only recover revenue losses incurred after the establishment of the memorandum accounts for the Peninsula Districts. The penalty funds authorized prior to that date were intended for eventual return to its customers.

38. If public water agencies call for rationing, swift Commission action is needed to implement their rationing plans.

39. Allowing water utilities to add mandatory rationing plans to their tariffs will be a significant step in expediting Commission approval.

40. According to CW Code § 357, Commission approval is needed to initiate or terminate rationing plans.

41. Initiating and terminating rationing plans could be expedited if utilities' advice letters are processed expeditiously.

42. The processing of advice letters can be expedited by placing the matter on the agenda for the next Commission meeting for which the 10-day notice requirements are met.

43. Great Oaks has not had a general rate proceeding and consequently it does not have adopted quantities for sales, expenses, and rate base.

44. Branch has prepared pro forma workpapers for Great Oaks' ratemaking issues in Exhibit 15.

44a. Utilities that already have Commission approval to implement and terminate mandatory rationing, as required, based on predetermined conditions set forth in their tariffs, do not need to file advice letters to seek further Commission approval to implement or terminate mandatory rationing.

45. Although Great Oaks was provided a copy of Exhibit 15, it has provided no input on Branch's proposed workpapers.

46. Branch's proposed workpapers follow general ratemaking guidelines of the Commission.

47. It is in the public interest to promote conservation.

48. Due to the present drought and projected long term water supply shortages, Water Management programs are necessary for long term water use strategy.

Conclusions of Law

1. Revenue losses due to mandatory rationing should be defined as the difference between the revenues at 100% of the adopted sales and actual sales less any reduction in expenses.

2. Revenue losses due to rationing should be recovered through a surcharge to utilities' commodity rates. The surcharge shall be calculated using the Water Utilities method.

3. Surcharge rates for recovery of revenue losses due to rationing should be based on annualized sales and should continue until the termination of rationing.

47. Any over or under collection in the memorandum account at the end of mandatory rationing should be offset against utilities' expense balancing account.

4a. Only funds tracked in memorandum accounts up until the effective date of this order are to be returned to the utilities at this time. The disposition of all funds tracked after the effective date of this order in memorandum accounts, including memorandum accounts established pursuant to Decision 90-07-067, are contingent upon Commission approval of the utility's Water and Wastewater Management program.

4b. The amounts authorized for possible recovery pursuant to ordering paragraphs 4a above are subject to decrease (subject to refund) in whole or in part: (1) should the Commission determine that any respondent water company has a reduced revenue requirement resulting from its decision to adopt the balancing and/or memorandum account treatment authorized above; or (2) should the Commission determine that recovery of only a portion of the recorded amounts is appropriate given the presently authorized rate of return.

5. Drought-related extraordinary conservation expenses, which are not being recovered through present rates, should be recorded in a separate account.

6. If the extraordinary conservation expenses accumulated in the separate account exceed 1% of a utility's gross revenues, the utility may file an advice letter to recover the expenses through a surcharge. If the extraordinary conservation expenses do not exceed 1% of the utility's gross revenues they should be deferred to the utility's Balancing Account.

7. Water Companies' proposal to use a balancing account to track revenue losses during rationing should not be adopted.

8. Monies collected in the penalty funds should be used to offset the net revenues losses in the memorandum accounts and fines imposed by a utility's wholesaler. The remaining funds, if any,

should be refunded to the customers by incorporating them into a utility's expense balancing account.

9. The request of San Jose, Water Commission, and IGC to use the excess penalty funds for reclamation or conservation projects should be denied.

10. CalWater's request to use the penalty funds collected for the Peninsula Districts to offset revenue losses incurred prior to the establishment of the memorandum accounts for the districts should be denied.

11. Water utilities should be allowed to add water rationing plans to their tariffs.

12. Water utilities' request to initiate or terminate rationing should be expedited by placing the matter on the next possible Commission agenda.

13. Branch's proposed pro forma workpapers for Great Oaks' ratemaking issues should be adopted.

14. The present and projected water shortage situation make it necessary a water management program which will increase a utility's incentive to promote long term conservation.

INTERIM ORDER

IT IS ORDERED that:

1. California Water Service Company (CalWater) is authorized to file an advice letter, for its Los Altos Suburban, Bear Gulch, San Carlos, San Mateo, and South San Francisco Districts, to implement a surcharge to recover revenue losses incurred due to the imposition of mandatory rationing. The surcharge shall be computed and implemented in accordance with the method and guidelines set forth in this order.

2. California American Water Company is authorized to file an advice letter, for its Monterey Peninsula District, to implement a surcharge to recover revenue losses incurred due to the

imposition of mandatory rationing. The surcharge shall be computed and implemented in accordance with the method and guidelines set forth in this order. San Jose Water Company (SJWC) and Great Oaks Water Company (Great Oaks) are authorized to file advice letters to implement a surcharge to recover revenue losses incurred due to the imposition of mandatory rationing. The surcharge shall be computed and implemented in accordance with the method and guidelines set forth in this order.

4. CalWater, SJWC, and Great Oaks shall use the fines collected in suspense accounts to offset the net revenue losses due to rationing and fines imposed by their water supplier. The remaining funds in the suspense account, if any, shall be transferred to the expense balancing accounts for the utilities or districts of utilities.

5. CalWater shall not use the fines collected in its Bear Gulch, San Carlos, San Mateo, and South San Francisco Districts to offset rationing-related revenue losses incurred prior to the establishment of memorandum accounts for the districts.

6. Water utilities are authorized to submit, for Commission authorization, mandatory rationing plans in their tariffs.

7. Water utilities shall file an advice letter to seek Commission authorization to initiate or terminate mandatory rationing, except that utilities with Commission-approved rationing plans in their tariffs that allow for implementing and terminating mandatory rationing, as required, based on predetermined conditions, do not need to file an advice letter to seek further Commission authorization.

8. The Water Utilities Branch of the Commission Advisory and Compliance Division shall, upon receipt of an advice letter requesting authorization to implement or terminate rationing, place the matter on the next Commission agenda for which the 10-day Commission agenda publication notice requirement can be met.

9. All Class A water utilities shall file, within 90 days of the effective date of this order, an application containing an in-depth Water Management Program including, but not limited to, the specifications outlined earlier in this decision. Only those Class A water utilities who can provide evidence to the Commission that a Water Management Program is not needed or is unworkable for their company and its customers may be exempted from this requirement. These applications will be reviewed and considered for Commission approval in Phase II of this OII.

9a. Any class B, C, or D utility may file, within 90 days of the effective date of this order, an application including an in-depth Water Management Program including, but not limited to, the specifications outlined earlier in this decision. These applications will be reviewed and considered for Commission approval in Phase II of this OII.

9b. Only funds tracked in memorandum accounts up until the effective date of this order are to be returned to the utilities at this time. The disposition of all funds tracked after the effective date of this order in memorandum accounts, including memorandum accounts established pursuant to Decision 90-07-067, are contingent upon Commission approval of the utility's Water Management program.

9c. The amounts authorized for possible recovery pursuant to ordering paragraph 9b above are subject to decrease (subject to refund) in whole or in part: (1) should the Commission determine that any respondent water company has a reduced revenue requirement resulting from its decision to adopt the balancing and/or memorandum account treatment authorized above; or (2) should the Commission determine that recovery of only a portion of the recorded amounts is appropriate given the presently authorized rate of return.

I.89-03-005 et al. COM/PME/cac *

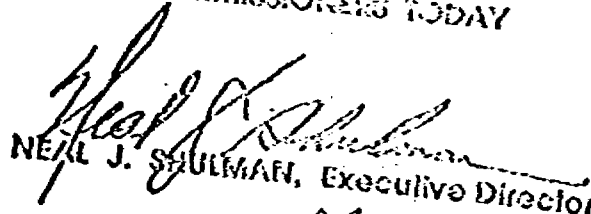
10. The proceedings in A.88-05-045, A.88-09-029, A.89-03-008, and A.89-04-014 are closed. The proceeding in I.89-03-005 shall remain open to address Phase II issues.

This order is effective today.

Dated August 8, 1990, 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


NEIL J. SHULMAN, Executive Director
PB

APPENDIX A

List of Appearances

Respondents: Martin Abramson, for Park Water Company; John S. Barker, Attorney at Law, and Messrs. Steefel, Levitt & Weiss, by Lenard G. Weiss, Attorney at Law, for California-American Water Company; Joel A. Dickson, for Suburban Water Systems; Messrs. McCutchen, Doyle, Brown & Enersen, by A. Crawford Greene, and William J. Newell, Attorneys at Law, for California Water Service Company, San Jose Water Company, and Suburban Water Systems; Donald L. Houck, for California Water Service Company; Carol B. Henningson, Attorney at Law, for Southern California Edison Company; Fred R. Meyer and Robert A. Loehr, Attorney at Law, for San Jose Water Company; Betty B. Roeder and Daniel Stockton, for Great Oaks Water Company; Susan Conway, for Southern California Water Company; Michael Moynahan, for Metropolitan Water District of Southern California; Steven Romines, for South Los Angeles Water Company; and Timothy J. Ryan, Attorney at Law, for San Gabriel Valley Water Company.

Interested Parties: David Ray, Attorney at Law, for Department of Water Resources; Spectrum Economics, by William E. Wade, for Metropolitan Water District; H. W. (Will) Stokes, for California Association of Reclamation Entities of Water; Office of Environmental Management, by Michelle Yesney, for City of San Jose; Messrs. O'Melveny & Myers, by Thomas N. Harding, Attorney at Law, for Southern California Water Company; and Messrs. Barakat, Howard & Chamberlin, by Nancy Thompson, and Edward Duncan, for themselves.

Commission Advisory and Compliance Division: Lawrence Q. Garica.

(END OF APPENDIX A)