

Mailed

Decision 91-09-065 September 25, 1991

SEP 26 1991

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.

ORIGINAL

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

And Related Matter.

I.90-11-033

(Drought Phase)

INTERIM OPINION

Due to continuing drought conditions in California, we are authorizing water companies with drought memorandum accounts to file advice letters implementing a surcharge to recover part of their revenue losses incurred due to mandatory rationing and voluntary conservation.

In Decision (D.) 90-07-067, effective July 18, 1990, we authorized all regulated water utilities to establish memorandum accounts to track expenses and revenue losses caused by mandatory rationing and voluntary conservation efforts. In D.90-08-055, we directed that recovery of a drought memorandum account will be conditioned upon (1) approval of a comprehensive water management program, and (2) a Commission decision on what reduction, if any, is required in the memorandum accounts to reflect reduced sales risk. Approximately 60 water management programs have been filed by utilities, and a majority of these programs have been recommended for approval by the Water Utilities Branch of the Commission Advisory and Compliance Division (Branch).

Eleven days of hearings on these and other issues related to drought memorandum accounts were conducted in June and July 1991. All evidence on interim relief was before the Commission

on July 1, 1991, when hearings ended. Briefing on other issues concluded on August 26, 1991, when this part of the Drought Phase investigation was submitted for decision.

While all parties have sought to expedite a decision in this proceeding, the number and complexity of the issues explored in hearing suggest that a final decision by the Commission resolving these issues might not be issued for some time. Meanwhile, the record shows that some water companies may face financial hardship because of the drought and their inability to realize memorandum account revenue by the fourth quarter of this year.¹

While full recovery of memorandum account revenue cannot be authorized until the conditions set forth in D.90-08-055 are met, partial recovery of this revenue is not inconsistent with our earlier decisions and, in fact, is likely to encourage the conservation efforts of utilities and their customers. For these reasons, we will authorize interim partial recovery of memorandum account revenue, subject to the conditions set forth below.

Comments: ALJ's Proposed Decision

In accordance with Public Utilities Code § 311, and Rule 77.2 of the Rules of Practice and Procedure, timely comments to this decision were filed by Branch and by the California Water Association, San Jose Water Company, Southern California Water Company and California Water Service Company. At the same time, we take note that the definitive Interim Opinion addressing all issues

¹ San Jose Water Company, for example, testified at hearing that its cash balances have declined dramatically because of the drought and mandatory rationing, and its debt has increased, in part because of non-deferrable dam repair commitments required because of 1989 earthquake damage. A company witness stated that the inability to draw on the memorandum account (currently at \$3.3 million) could affect the company's ability to pay its quarterly dividend at the end of this year.

in this part of the Drought Phase proceeding has been drafted and is tentatively scheduled for the Commission's meeting on October 23, 1991.

We have made two changes in this decision in response to the comments. First, we have changed the cutoff date for memorandum account recovery from August 30 to August 31, 1991, in recognition of utilities' month-end accounting practices. Second, we have deleted a proposed 50% recovery for utilities that have not yet obtained Branch approval of their water management programs. As Branch notes, there is little in the record to support this recovery, and the definitive opinion is likely to address procedures for utilities that do not have water management program approval.

We reject utilities' requests that this decision provide for recovery of drought penalties, now held in suspense accounts, because drought penalties were a contested issue in the hearings and will be dealt with in the definitive opinion. We reject Branch's argument that this draft decision was issued before Branch had an opportunity to reply to concurrent briefs, because no party except Branch addressed interim relief in the concurrent briefs.

We anticipate that most water companies will await the definitive opinion before filing for recovery of drought memorandum account revenue. Our decision today, however, is intended to provide interim relief where appropriate and to signal the financial community serving water companies that memorandum account recovery is forthcoming this year.

Findings of Fact

1. California has experienced extended drought conditions.
2. It is in the public interest to promote conservation of water supplies.
3. Memorandum accounts permit utilities to keep track of revenue fluctuations and conservation expenses due to the drought.

4. Evidence at hearing establishes that no party seeks a risk reduction factor that would limit recovery to less than 75% of memorandum account revenue for those water companies that have filed approved water management programs.

5. Authorization of partial recovery of memorandum account revenue pending an interim decision on water management programs, reduction in risk and other issues, is warranted in order to promote and encourage better water management.

Conclusions of Law

1. Interim recovery of a portion of memorandum account revenue should be authorized pending a decision in this Drought Phase investigation.

2. Full recovery of memorandum account revenue should be conditioned upon Commission approval of a utility's water management program pursuant to D.90-08-055.

3. Full recovery of memorandum account revenue should be conditioned upon a decision related to what reduction is merited because of reduction in sales risk, pursuant to D.90-08-055.

4. Those utilities with water management programs that have been recommended for approval by Branch should be authorized to recover up to 75% of the amount booked to their memorandum accounts as of August 31, 1991, pending a decision on water management programs and risk reduction. This interim recovery is within risk reduction guidelines proposed by the parties.

5. All such interim recovery of memorandum account revenue should be made subject to refund pending a decision on water management programs and risk reduction.

6. This order should be made effective immediately to promote and encourage water conservation efforts.

INTERIM ORDER

IT IS ORDERED that water corporations and districts with water management programs that have been recommended for approval by the Water Utilities Branch of the Commission Advisory and Compliance Division (Branch) are authorized to file advice letters to implement a surcharge to recover up to 75% of recorded revenue losses through August 31, 1991, subject to refund, incurred due to mandatory rationing and voluntary conservation. The surcharge shall be computed and implemented in accordance with the method and guidelines set forth in Decision 90-08-055.

This order is effective today.

Dated September 25, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

I abstain.

/s/ G. MITCHELL WILK
Commissioner

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


NEAL J. SHULMAN, Executive Director