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Decision 92-10-018 October 6, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of the SOUTHERN CALIFORNIA WATER
COMPANY (U 133 W) for authority
pursuant to Public Utilities Code
Sections 454, 830, and 1001 et seq.
to participate in the State Water
Project and to recover all present
and future costs under a contract
with the Central Coast Water
Authority to deliver water to its
Santa Maria District.

ORIGINAL

Application 92-06-044
(Filed June 25, 1992)

INTERIM OPINION

On June 25, 1992, Southern California Water Company (SoCalWater) filed its application in this proceeding, seeking authority to participate in the construction of the Santa Maria State Water Project (the project) and to include the costs of such participation in rates. As described in the application, participation in the project will require SoCalWater to contribute funds to pay the capital costs and operating expenses of the project.

By Motion filed August 19, 1992, SoCalWater notes that it will necessarily begin to incur such costs before the Commission issues its final decision on the application, and requests interim approval of an interest-bearing memorandum account to record and accumulate those costs (for later recovery in rates). SoCalWater notes that it is agreeable to modifying its request to a "non-interest-bearing" memorandum account should the Commission deem such modification appropriate.

In a protest filed on September 2, 1992, the Commission's Division of Ratepayer Advocates (DRA) states:

"Although DRA does not object to the establishment of a memorandum account to track costs associated with this project, DRA strongly objects to the request that said account be 'interest bearing'."

The basis for this objection is the alleged long-standing Commission policy that such accounts should not be interest bearing. DRA further notes that the question of whether such accounts should bear interest is currently before the Commission in I.90-11-033, and argues that that proceeding, not this one, is the proper proceeding in which to consider whether a change in Commission policy should be made.

As counsel for DRA notes, the question of whether memorandum accounts such as that requested here should bear interest is currently under consideration in the Commission's pending investigation into the financial and operational risks of regulated water utilities (Risk OII), I.90-11-033. Because our practice in this regard is under review and could possibly be modified by our decision in that proceeding, we will, as an interim matter, authorize SoCalWater to establish an interest-bearing memorandum account as requested, however, whether interest will ultimately be allowed on the costs booked to that account will be governed by (1) whether we grant SoCalWater authority to participate in the state water project as requested, and (2) our decision in I.90-11-033 on the issue of whether such accounts should bear interest.

We wish to make absolutely clear that by authorizing the establishment of a memorandum account into which SoCalWater may book costs associated with the state water project during the pendency of its application seeking Commission authorization to participate in that project, we make no commitment that the Commission will look favorably on the application; that any cost booked to the memorandum account will be deemed prudent and/or be allowed to be recovered in rates; that interest will be allowed on

any costs booked to the memorandum account; or that if authorization to participate in the state water project is denied, that the costs accumulated in the memorandum account will be allowed to be treated as abandoned project costs recoverable in rates. By authorizing the establishment of the memorandum account, we merely recognize the doctrine of retroactive ratemaking, and are providing a vehicle for possible future recovery in rates of SoCalWater's costs associated with the state water project incurred during the pendency of SoCalWater's application to participate in that project.

We understand that SoCalWater may wish to seek permission to have capital costs treated as expenses for ratemaking recovery. However, we do not reach that decision today. By authorizing the establishment of this memorandum account, we neither authorize nor proscribe the ratemaking treatment of capital costs incurred and tracked by SoCalWater in connection with this project.

Findings of Fact

1. By application filed June 25, 1992, SoCalWater seeks authority to participate in the construction of the Santa Maria State Water Project and to include the costs of such participation in rates.

2. Participation in the Santa Maria State Water Project will require SoCalWater to contribute funds to pay the capital costs and operating expenses of the project.

3. SoCalWater desires to recover such costs in future rates.

4. SoCalWater requests authority to establish an interest-bearing memorandum account to record and accumulate such costs for recovery in future rates.

5. The issue of whether memorandum accounts in water utility cases should bear interest is currently under review in I.90-11-33, currently pending before the Commission.

6. It would not be contrary to the public interest to allow SoCalWater to establish an interest-bearing memorandum account with the condition that whether interest will ultimately be allowed on costs booked to such an account is to be governed by our decision in I.90-11-033, when issued.

Conclusions of Law

1. The Commission should authorize SoCalWater to establish an interest-bearing memorandum account into which to book costs associated with the Santa Maria State Water Project during the pendency of SoCalWater's application to participate in that project.
2. Whether any costs booked to that account may be recovered in rates is subject to prudence review by the Commission.
3. Whether interest will ultimately be allowed on any costs booked to such account will be determined by our resolution of that question in I.90-11-033, now pending before this Commission.
4. The following order should become effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Water Company is hereby authorized to establish an interest-bearing memorandum account into which it may book its costs associated with the Santa Maria State Water Project during the pendency of its application for authorization to participate in that project.
2. All costs booked to such memorandum account shall be subject to further Commission review as to appropriateness for recovery in a future ratemaking order.

3. Whether interest will ultimately be allowed on costs booked to such account will be determined by our resolution of that question in I.90-11-033, now pending before this Commission.

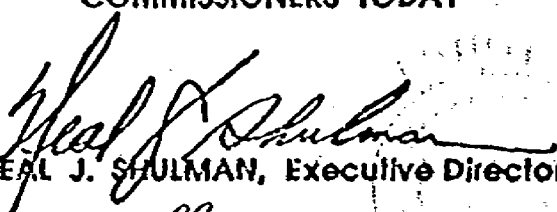
4. By authorizing the establishment of this memorandum account, we neither authorize nor proscribe the ratemaking treatment of capital costs incurred and tracked by SoCalWater in connection with this project.

This order is effective today.

Dated October 6, 1992, at San Francisco, California.

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

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


NEAL J. SHULMAN, Executive Director