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Decision 95-11-043 November 21, 1995

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	)	Application 95-07-049
Section 851 to sell or otherwise	)	(Filed July 21, 1995)
dispose of 2,500 acre-feet per year	)	
of State Water Project entitlement	)	
in its Santa Maria District.	)	

Patricia A. Schmiede, Attorney at Law, for  
Southern California Water Company, applicant.  
Peter G. Fairchild, Attorney at Law, for the  
Division of Ratepayer Advocates.

O P I N I O N1. Summary

Southern California Water Company (SCWC, or applicant) seeks an order pursuant to Public Utilities (PU) Code § 851 permitting it to sell 2,500 acre-feet per year of its entitlement in the State Water Project to the Goleta Water District for approximately \$1 million. The Division of Ratepayer Advocates (DRA) recommends that the application be granted subject to a \$196,906 balancing account credit to ratepayers. Applicant has agreed. The application is granted.

2. Background

SCWC since 1986 has made annual payments to the California Department of Water Resources to retain an entitlement to 3,000 acre-feet of State Water Project water for SCWC's Santa Maria District. The State Water Project is a system of reservoirs, aqueducts, pumping plants and canals designed to deliver water to arid locations throughout California.

To receive its water entitlement in the Santa Maria District, SCWC requires a means of delivery. The Coastal Aqueduct

Project, now being constructed by the Central Coast Water Authority, will deliver State Water Project water to Santa Barbara County.

Applicant in 1992 sought Commission approval to participate in the Coastal Aqueduct Project at a level of 7,900 acre-feet per year. That application was denied by the Commission in Decision (D.) 93-03-066. SCWC's later petition for modification, wherein it reduced its proposed participation in the project to 3,000 acre-feet per year, also was denied. (D.93-07-018.) In both these decisions, the Commission urged SCWC to develop a plan to participate in the aqueduct project at less costly and more realistic levels.

SCWC now has contracted to participate in the Coastal Aqueduct Project at the reduced level of 500 acre-feet per year. Applicant states that it will seek Commission approval of that agreement in the near future when costs are determined with more certainty.

### 3. Sale to Goleta Water District

Since it has reduced its planned participation in the delivery system to 500 acre-feet per year, SCWC is left with an entitlement of 2,500 acre-feet of water on which it will be unable to take delivery. SCWC states that the Coastal Aqueduct Project is the only means of bringing State Water Project water into Santa Barbara County, and the project is being built without a means for participants to expand their pipeline capacity later.

Therefore, since it no longer is able to use all of its acre-feet of entitlement, SCWC, under its retention agreement with the Santa Barbara County Flood Control and Water Conservation District, proffered 2,500 acre-feet to other project participants. The selling price was set at the amount that SCWC has paid to the Department of Water Resources for the 2,500 acre-feet of entitlement rights (currently \$1,038,000).

The Goleta Water District, which operates a municipal water system in an unincorporated part of Santa Barbara County, has offered to buy SCWC's 2,500 acre-feet of entitlement to add to its own 4,500 acre-feet per year of entitlement, and it has successfully completed all requirements for purchase. A ballot measure authorizing the Goleta District to make the purchase was approved by voters in the November 1994 general election.

4. DRA Recommendation

In a report by Project Manager Donald McCrea, DRA recommends that the application be granted, provided that an adjustment be made to SCWC's water balancing account to decrease the amount of undercollection by \$196,906. This would have the effect of eliminating an eventual ratepayer surcharge to collect that amount.

DRA explains that SCWC was permitted to book certain State Water Project costs in rate base as part of two rate decisions, D.87-04-069 and D.89-11-017. In 1993, these amounts were removed from rate base and placed in a memorandum account under terms of a settlement agreement between SCWC and DRA adopted by the Commission in D.93-03-066. Thus, none of the costs associated with SCWC's retention of its entitlement are currently reflected in rates.

However, DRA states that while the State Water Project costs were in rate base between 1987 and 1994, ratepayers paid \$196,906 to the utility as return on rate base for these amounts. DRA states:

"Since the ratepayers have not and will not receive any benefits from the 2,500 APY water rights, DRA recommends that an adjustment be made to the water supply balancing account, decreasing the amount of undercollection by \$196,906." (DRA Report, p. 3.)

At a prehearing conference in this matter conducted on October 12, 1995, SCWC stated that it will accept DRA's recommendation.

5. Discussion

The Commission's denial of SCWC's requests to participate at 7,900 acre-feet and 3,000 acre-feet levels in the Coastal Aqueduct Project is discussed at length in D.93-03-065 and D.93-07-018. It is sufficient for purposes of this application simply to note that the Commission found that the utility in its participation agreement was being subjected to costs that were open-ended and potentially enormous, and that terms of the agreement precluded prudence review by our staff. The Commission received hundreds of letters from ratepayers objecting to the rate increases that were likely to accompany SCWC's proposal.

Now that SCWC's proposed participation has been reduced to a level of 500 acre-feet, the utility has no need for, and prudently should seek to dispose of, the excess 2,500 acre-feet of entitlement. Since the sales price of the 2,500 acre-feet of entitlement will be equal to what SCWC has actually paid to the Department of Water Resources through the date of sale, SCWC will recover only what it has actually paid. There will be no gain on sale in disposition of the entitlement rights.

Similarly, since it now has been determined that ratepayers will receive no benefit from the payments made by SCWC to retain the 2,500 acre-feet of water rights, it is reasonable to conclude that ratepayers should not be assessed a return on rate base for any of the retention payments. That is DRA's position, and SCWC has concurred. Accordingly, the utility's water supply balancing account will be adjusted to decrease the amount of undercollection by \$196,906, which is the amount that ratepayers paid in rate base return on the utility's retention payments.

Since no protests to the application have been filed, and since no issue remains in dispute, we agree with applicant and DRA

that no evidentiary hearing is necessary, and that our order may take effect without further proceedings. We will grant the application, subject to the adjustment to the water supply balancing account.

Findings of Fact

1. SCWC since 1986 has made annual payments to the Department of Water Resources to retain an entitlement to 3,000 acre-feet of State Water Project water for SCWC's Santa Maria District.
2. Delivery of State Water Project water would be through the Coastal Aqueduct Project.
3. SCWC's applications to participate in the Coastal Aqueduct Project at levels of 7,900 and 3,000 acre-feet of State Water Project water delivery per year have been denied by the Commission.
4. SCWC has contracted to participate in the Coastal Aqueduct Project at the level of 500 acre-feet per year, and it will in due course seek Commission approval for that level of participation.
5. SCWC has proffered its entitlement to 2,500 acre-feet of State Water Project water to other participants in the Coastal Aqueduct Project.
6. Goleta Water District has agreed to buy SCWC's 2,500 acre-feet of entitlement at a price representing what SCWC has paid to retain that entitlement (currently \$1,038,000).
7. Between the years 1987 and 1994, SCWC was permitted to post in rate base certain costs of the State Water Project entitlement.
8. Ratepayers have paid \$196,906 as return on rate base for SCWC's costs of State Water Project entitlement between the years 1987 and 1994.

9. DRA recommends that this application be granted subject to a credit on behalf of ratepayers of \$196,906 in SCWC's water supply balancing account.

10. At a prehearing conference on October 12, 1995, SCWC agreed to DRA's recommendation for a credit on behalf of ratepayers of \$196,906 in the water supply balancing account.

Conclusions of Law

1. No evidentiary hearing is required.

2. The application should be granted, subject to an adjustment of the water supply balancing account to the benefit of ratepayers in the amount of \$196,906.

3. To facilitate these transactions, this order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. Pursuant to Public Utilities Code § 851, the application of Southern California Water Company (applicant) for authority to sell 2,500 acre-feet per year of its entitlement in the State Water Project to the Goleta Water District, at a price and pursuant to the conditions set forth in the application, is granted, subject to the condition set forth in Ordering Paragraph 2.

2. Prior to the sale of State Water Project water entitlement to Goleta Water District, applicant shall adjust its water supply balancing account to decrease the amount of undercollection by \$196,906.

3. Applicant shall notify the Director, Commission Advisory and Compliance Division, in writing, of the actual asset transfer date as authorized herein, within 10 days of the date of transfer. A true copy of the instrument of transfer shall be attached to the notification.

4. The authority granted in this order shall expire if not exercised within 12 months after the effective date of this order.

5. Application 95-07-049 is closed.

This order is effective today.

Dated November 21, 1995, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
Commissioners