

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Small Water Branch

RESOLUTION NO. W-4004
October 25, 1996

R E S O L U T I O N

(RES. W-4004), ALL CLASS B, C, AND D WATER
UTILITIES (AFFECTED UTILITIES). ORDER AUTHORIZING
A MEMORANDUM ACCOUNT FOR PURCHASED WATER.

SUMMARY

This resolution authorizes the affected water utilities to establish a memorandum account to track incurred expenses associated with purchased water. Present rates will not be affected by this resolution.

BACKGROUND

By Letter received August 9, 1996, Elk Grove Water Works (EGWW) requested authority to establish a memorandum account for purchased water. EGWW had entered into a wholesale treated groundwater and/or surface water agreement with Sacramento County Water Agency, whereby the Agency was to provide potable water to EGWW for use within a portion of its service area, Zone 40. EGWW had never needed to purchase water before, relying on wells for its water supply. However, due to increasing demand and overdraft of groundwater supply, EGWW needed to purchase water during peak periods, May to October, in order to meet required pressures and fire flow rates.

Without an adopted quantity of purchased water to apply the rate to, it was impossible for Water Division (Division) to recommend recovery of additional purchased power expenses under the existing balancing account procedures in this situation. The Division drafted and the Commission approved Resolution W-4000, dated September 4, 1996, to provide prospective protection, but any expenses incurred by EGWW prior to the effective date of the resolution are unrecoverable.

DISCUSSION

EGWW requested memorandum account protection for purchased water expense changes that could not have been anticipated during their last general rate case. EGWW had no adopted quantity for surface water purchases. The present procedure for maintaining the purchased water balancing account was inadequate in this instance.

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After investigation by the Water Division, the Small Water Branch (Branch), which is tasked with regulating Class B, C, and D water utilities, recommends that the Commission establish a generic memorandum account for purchased water for all Class B, C, and D utilities. This account will allow the affected utilities and the Division to track offsettable expenses that utilities might have a right to recover, but never filed for, and to allow appropriate recovery of any reasonably incurred expenses.

The memorandum account would authorize the affected companies to record all purchased water expenses that occur after the effective date of this Resolution. To allow these companies to collect expenses that it incurred prior to such date would constitute retroactive ratemaking.

The recording of these expenses into the memorandum account does not constitute a prejudgment of the appropriateness of recovery of any expense included in the memorandum account. The purpose of authorizing this memorandum account is to insure that the affected utilities are not precluded from recovering reasonably incurred purchased water expenses.

In a future proceeding or in the utility's GRC, staff will review the utility's actual expenses and determine a reasonable recovery in rates of the memorandum account balance.

Because rates are not affected by the creation of a memorandum account and parties will have an opportunity to review these costs in the future, no specific notice to customers is necessary.

The memorandum account authorized by this resolution is to allow utilities an opportunity to recover expenses either by means of an offset rate increase filing or during a normal three-year general rate cycle. Utilities should always file for recovery of memorandum accounts in a timely manner to avoid any rate shock to customers. Therefore, the Branch recommends that two limits be placed on the account: one on the amount of time the account can accumulate expenses and the other on the maximum amount that can be accumulated.

For the first limit, the branch proposes that the affected utilities should be required to file offset rate increase advice letters on a timely manner. The existing procedures allow filings as often as two times per year for balancing accounts, and the same limits should be applied to this memorandum account. On the other hand, recovery of any expenses incurred after a period of 36 months from the date of the first differential cost increase should not be allowed because of the public need that today's ratepayer not pay for yesterday's ratepayers incurred expenses.

For the second limit, the existing trigger of 2% of the last authorized revenue requirement for balancing account recovery is appropriate as the minimum accumulation that can be recovered in this memorandum account, but there should also be a maximum recoverable amount. Branch recommends that this be 10%. In order to minimize the rate shock, the account should be capped at 10% of the revenue requirement. No expenses over this accumulated amount should be allowed to be booked to the account.

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With these limits, the Branch recommends approval of this memorandum account.

FINDINGS

THE COMMISSION FINDS, after investigation by the Water Division, that establishment of a generic purchased water memorandum account is justified for the purpose of tracking purchased water expenses for all Class B, C, and D water utilities. This account may be recovered by offset filing and will be reviewed at the utility's next general rate case proceeding for recovery in rates of reasonably incurred expenses, on a dollar-for-dollar basis. This action will not result in any change to rates at this time.

IT IS ORDERED that:

1. All Class B, C, and D water utilities are authorized to establish a memorandum account for purchased water expenses which are not already covered in rates.
2. All Class B, C, and D utilities shall file requests for recovery or refunds of accumulated amounts in the purchased water memorandum account on a timely basis. No recovery of funds accumulated in purchased water memorandum accounts for over three years shall be allowed.
3. Within 30 days after undercollections in the purchased water memorandum account authorized by this resolution exceed 10 percent of the latest adopted revenues, the affected utility shall file an advice letter with the Commission requesting recovery of accumulated funds. If a utility fails to file within the 30-day period, no recovery of subsequent accumulation of funds shall be allowed.
4. No expenses incurred prior to the effective date of this resolution shall be recorded in the memorandum account.

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5. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 1996. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

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

Commissioner Daniel Wm. Fessler,
being necessarily absent,
did not participate.