

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**3-02-17
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March 2, 2017

Agenda ID #15560
Quasi-legislative

TO PARTIES OF RECORD IN RULEMAKING 11-11-008

This is the proposed decision of Commissioner Picker. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's April 6, 2017 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ RICHARD SMITH for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:ek4
Attachment

Decision **PROPOSED DECISION OF COMMISSIONER PICKER**
(Mailed 3/2/2017)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities.

Rulemaking 11-11-008
(Filed November 10, 2011)

DECISION CORRECTING ERRORS IN DECISION 16-12-026

Summary

Today's decision corrects inadvertent errors in the text and associated Ordering Paragraph addressing the issue of the sales reconciliation mechanism (SRM) in Decision (D.) 16-12-026.

Specifically, changes are made to reflect that the SRM test is set at 5 percent or greater divergence (higher or lower) between authorized and actual "sales" and not "revenue" as erroneously stated in D.16-12-026. The changes are made in (a) the second paragraph on page 6 of the Summary, (b) the paragraph beginning at the bottom of page 6 and continuing at the top of page 7 of the Summary, (c) the second paragraph on page 32 continuing at the top of page 33, (d) the paragraph beginning at the bottom of page 33 and continuing at the top of page 34, and (e) Ordering Paragraph No. 3 at page 84. Attachment A to this decision contains the relevant portions of the changed pages from D.16-12-026 with the changes in track changes mode to show the revised language. Attachment B to this decision contains the language as changed.

This proceeding is closed.

1. Background

On December 1, 2016, the Commission issued Decision (D.) 16-12-026 in Rulemaking (R.) 11-11-008 addressing policy decisions for various regulatory issues to promote the goals and objectives of transparency, sustainability, and conservation in the water utility industry. One of the policies adopted was the option for utilities to request use of a sales reconciliation mechanism (SRM) to modify sales forecasts when actual sales deviate from adopted sales used in setting rates by five percent or more.

Following the issuance of D.16-12-026, San Jose Water Company filed Advice Letter No. 501 requesting establishment of SRM pursuant to the direction given in Ordering Paragraph No. 3. The review of Ordering Paragraph No. 3 by the Commission's Water Division in conjunction with Advice Letter No. 501 identified the existence of an inadvertent error in the language used in describing the SRM in D.16-12-026.

2. Discussion

We have reviewed D.16-12-026 in light of San Jose Water Company's Advice Letter No. 501 and have determined that D.16-12-026 contains an inadvertent error in its description of the SRM through the use of the word "revenue" rather than "sales." In D.14-08-011 the Commission approved a pilot SRM program for California Water Service Company. The discussion of the pilot SRM program in D.14-08-011 at pages 18-20 is clear that SRM is a mechanism to adjust adopted sales and not a revenue adjustment mechanism. The inadvertent use of the word "revenue" in place of "sales" IN d.16-12-026 requires correction. As such, this decision makes the necessary corrections to the Summary, the discussion sections of D.16-12-026 which reference SRM, and Ordering

Paragraph No. 3 where utilities are given the option of filing for SRM through an advice letter filing.

3. Comments on Proposed Decision

The proposed decision of President Picker in this matter was mailed to the parties in accordance with section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. The service of the proposed decision reopened this proceeding.

4. Assignment of Proceeding

President Michael Picker is the assigned Commissioner and Gary Weatherford is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On December 1, 2016, the Commission issued D.16-12-026 addressing policy decisions in R.11-11-008.
2. San Jose Water Company's filing of Advice Letter 501 on January 9, 2017 in response to Ordering Paragraph No. 3 in D.16-12-026 brought to the Commission's attention the inadvertent error in the language describing the sales reconciliation mechanism.
3. Pages 6, 7, 32, 33 and 34, and Ordering Paragraph No. 3 on page 84 contain inadvertent errors in the description of the sales reconciliation mechanism through the use of the term "revenue" when the appropriate term "sales" should be used.

Conclusions of Law

1. Changes should be made to D.16-12-026 on pages 6, 7, 32, 33, 34, and in Ordering Paragraph 3 on page 84, as shown in Attachments A and B to this decision.

2. This order should be effective today to permit water utilities to file an advice letter for the SRM, if they elect to do so, and obtain the benefits thereof for the utility and their ratepayers without delay.

O R D E R

IT IS ORDERED that:

1. Ordering Paragraph No. 3 of Decision 16-12-026 (as shown in Attachments A and B) is changed to read as follows:

Class A and B Water Investor-Owned Utilities that have a five percent or greater divergence (higher or lower) between authorized and actual sales during a drought period in their current General Rate Case cycle, shall consider filing for an individual district or several districts a Tier 2 Advice Letter requesting a Sales Reconciliation Mechanism to conform water forecasts authorized in the current General Rate Case to actual consumption, in light of the drought and circumstances faced in their district(s).

2. Portions of pages 6, 7, 32, 33 and 34 of Decision 16-12-026, and Ordering Paragraph 3 on page 84, shall be replaced as shown in track changes mode in Attachment A to this decision (consistent with the change made to Ordering Paragraph No. 3 above), with the final adopted language shown in Attachment B.

3. Rulemaking 11-11-008 is closed.

This order is effective today.

Dated _____, 2017, at Santa Rosa, California.

ATTACHMENT A
CHANGES IN TRACK CHANGES MODE

1. Second paragraph on page 6:

This Decision orders Class A and B water IOUs that have a five percent or greater divergence (higher or lower) between authorized and actual ~~revenue~~ sales during a drought period in their current GRC cycle, to consider filing a Tier 2 Advice Letter requesting a Sales Reconciliation Mechanism (SRM) to conform water forecasts authorized in the GRC to actual consumption in light of the circumstances faced in their districts. The SRM will recalculate rates for the remainder of the GRC so that 50 percent of the divergence between authorized and actual ~~revenues~~ sales will be recovered in rates through the remainder of the GRC cycle, with the balanced recovered through a WRAM if authorized for that IOU, or surcharges. The SRM may be proposed for an individual district, or a combination of districts, based on district circumstances.

2. Paragraph at bottom of page 6 and continuing at top of page 7:

This Decision orders Class A and B water IOUs to consider filing in the next GRC application following this Decision a proposal to institute an SRM that puts at least 50 percent of the divergence between authorized and actual ~~revenues~~ sales in rates to be recovered through the remainder of the GRC cycle, if consistent with the principles adopted in this Decision. That filing may include alternative mechanisms to reduce WRAM balances and surcharges, and shall propose different triggers or time period for the SRM, such as whether it should only be available during drought or similar periods, or whether it should be an ongoing mechanism. The application shall provide analysis and information to make a showing that the proposals are well-calculated to provide more timely cost information to customers to inform the Commission's deliberation about the appropriate mechanism to address this issue and achieve the policy goals articulated herein.

3. Second paragraph on page 32 continuing at top of page 33:

This Decision orders Class A and B water IOUs to consider filing in their next GRC application for an SRM that puts at least 50 percent of the divergence between authorized and actual ~~revenues~~ sales into rates recovered during the remainder of the GRC cycle, and/or is triggered by divergences of less than five percent. The GRC may also consider whether the SRM should be more broadly available to minimize resort to WRAMs or surcharges that may occur with floods, fire, climate change, changes in public policy, or other factors. That filing may include alternative mechanisms to reduce WRAM balances and surcharges and provide more timely cost information to customers to inform the Commission's deliberation about the appropriate mechanism to address this issue and achieve the policy goals articulated herein. The SRM or alternative mechanism may be proposed for an individual district, or a combination of districts, based on district circumstances. Those proposals shall provide analysis and information to make a showing that the proposals are well-calculated to meet this Decision's objectives, and shall be evaluated for their consistency with the principles adopted in this Decision.

4. The paragraph beginning at the bottom of page 33 and continuing at the top of page 34:

The record of substantial WRAM balances or surcharges imposed over months or years on Class A and B water IOUs customers due to mismatches between authorized revenue and sales demands action now to better align forecasted rates to recorded sales. Accordingly, this Decision orders Class A and B water IOUs that have a five percent or greater divergence between authorized and actual ~~revenue~~ sales during declared drought years in their current GRC cycle, to consider filing a Tier 2 Advice Letter requesting an SRM to

conform water forecasts authorized in the GRC to recorded consumption in light of the circumstances faced in their districts. The SRM recalculates rates for the remainder of the GRC so that 50 percent of the divergence between authorized and actual ~~revenues~~ sales will be recovered in rates through the remainder of the GRC cycle, with the balance recovered through a WRAM if authorized for that IOU, or surcharges. The SRM may be proposed for an individual district, or a combination of districts, based on district circumstances.

5. Ordering Paragraph 3 at page 84:

3. Class A and B Water Investor-Owned Utilities that have a five percent or greater divergence (higher or lower) between authorized and actual ~~revenue~~ sales during a drought period in their current General Rate Case cycle, shall consider filing for an individual district or several districts a Tier 2 Advice Letter requesting a Sales Reconciliation Mechanism to conform water forecasts authorized in the current General Rate Case to actual consumption, in light of the drought and circumstances faced in their district(s).

(END OF ATTACHMENT A)

ATTACHMENT B
LANGUAGE AS CORRECTED

1. Second paragraph on page 6:

This Decision orders Class A and B water IOUs that have a five percent or greater divergence (higher or lower) between authorized and actual sales during a drought period in their current GRC cycle, to consider filing a Tier 2 Advice Letter requesting a Sales Reconciliation Mechanism (SRM) to conform water forecasts authorized in the GRC to actual consumption in light of the circumstances faced in their districts. The SRM will recalculate rates for the remainder of the GRC so that 50 percent of the divergence between authorized and actual sales will be recovered in rates through the remainder of the GRC cycle, with the balance recovered through a WRAM if authorized for that IOU, or surcharges. The SRM may be proposed for an individual district, or a combination of districts, based on district circumstances.

2. Paragraph at bottom of page 6 and continuing at top of page 7:

This Decision orders Class A and B water IOUs to consider filing in the next GRC application following this Decision a proposal to institute an SRM that puts at least 50 percent of the divergence between authorized and actual sales in rates to be recovered through the remainder of the GRC cycle, if consistent with the principles adopted in this Decision. That filing may include alternative mechanisms to reduce WRAM balances and surcharges, and shall propose different triggers or time period for the SRM, such as whether it should only be available during drought or similar periods, or whether it should be an ongoing mechanism. The application shall provide analysis and information to make a showing that the proposals are well-calculated to provide more timely cost information to customers to inform the Commission's deliberation about the appropriate mechanism to address this issue and achieve the policy goals articulated herein.

3. Second paragraph on page 32 continuing at top of page 33:

This Decision orders Class A and B water IOUs to consider filing in their next GRC application for an SRM that puts at least 50 percent of the divergence between authorized and actual sales into rates recovered during the remainder of the GRC cycle, and/or is triggered by divergences of less than five percent. The GRC may also consider whether the SRM should be more broadly available to minimize resort to WRAMs or surcharges that may occur with floods, fire, climate change, changes in public policy, or other factors. That filing may include alternative mechanisms to reduce WRAM balances and surcharges and provide more timely cost information to customers to inform the Commission's deliberation about the appropriate mechanism to address this issue and achieve the policy goals articulated herein. The SRM or alternative mechanism may be proposed for an individual district, or a combination of districts, based on district circumstances. Those proposals shall provide analysis and information to make a showing that the proposals are well-calculated to meet this Decision's objectives, and shall be evaluated for their consistency with the principles adopted in this Decision.

4. The paragraph beginning at the bottom of page 33 and continuing at the top of page 34:

The record of substantial WRAM balances or surcharges imposed over months or years on Class A and B water IOUs customers due to mismatches between authorized revenue and sales demands action now to better align forecasted rates to recorded sales. Accordingly, this Decision orders Class A and B water IOUs that have a five percent or greater divergence between authorized and actual sales during declared drought years in their current GRC cycle, to consider filing a Tier 2 Advice Letter requesting an SRM to conform

water forecasts authorized in the GRC to recorded consumption in light of the circumstances faced in their districts. The SRM recalculates rates for the remainder of the GRC so that 50 percent of the divergence between authorized and actual sales will be recovered in rates through the remainder of the GRC cycle, with the balance recovered through a WRAM if authorized for that IOU, or surcharges. The SRM may be proposed for an individual district, or a combination of districts, based on district circumstances.

5. Ordering Paragraph 3 at page 84:

Class A and B Water Investor-Owned Utilities that have a five percent or greater divergence (higher or lower) between authorized and actual sales during a drought period in their current General Rate Case cycle, shall consider filing for an individual district or several districts a Tier 2 Advice Letter requesting a Sales Reconciliation Mechanism to conform water forecasts authorized in the current General Rate Case to actual consumption, in light of the drought and circumstances faced in their district(s).

(END OF ATTACHMENT B)