PROPOSED RESOLUTION

RES. W-4974 **AGENDA ID#:12832**
DWA/RSK/BMD/AJT/ds4 **ITEM #18**
(Rev. 1) 3/25/2014 1:30 P.M.

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS **RESOLUTION W-4974**
Water and Sewer Advisory Branch **March 27, 2014**

RESOLUTION

(RES. W-4974) EAST PASADENA WATER COMPANY ORDER SEEKING AUTHORIZATION TO ESTABLISH A CPUC AUDIT MEMORANDUM ACCOUNT TO TRACK THE ACTUAL COST OF COMPLYING WITH THE AUDIT OF THE 2011 AND 2012 ACCOUNTS.

SUMMARY

By Advice Letter 80, filed on November 1, 2013, East Pasadena Water Company, a Class B water utility, seeks authorization to establish a California Public Utilities Commission Audit Memorandum Account to track the actual costs of complying with the audit of the 2011 and 2012 accounts.

This Resolution authorizes East Pasadena Water Company to establish an Audit Memorandum Account for the purpose specified above. East Pasadena Water Company is authorized to track the actual costs of complying with the audit of the 2011 and 2012 accounts.

BACKGROUND

On February 6, 2013, the California Public Utilities Commission (Commission) notified East Pasadena Water Company (EPWC) that it would audit EPWC's annual reports. Due to EPWC's size, it relies on the services of outside consultants to perform its accounting function. The efforts required to respond to Commission requests for audit-related documents and data requests will require outside consultants and accountants. These costs are not presently included in EPWC's revenue requirements. Absent a memorandum account for recovery of these additional costs, EPWC will not be able to recover these costs.

NOTICE AND PROTESTS

EPWC's Advice Letter (AL) No. 80 was served in accordance with General Order 96-B (GO 96-B) on October 28, 2013. Under General Rule 4.3 of GO 96-B, EPWC properly filed AL 80 on its service list.

Public notice was not required and no protests have been received.

DISCUSSION

EPWC requests authorization to modify its Preliminary Statements to add a California Public Utilities Commission Audit Memorandum Account (CPUCAMA), attached to this Resolution as Appendix A, to track the additional expenditures incurred by EPWC in connection with the Commission's audit of 2011 and 2012 accounts.

This memorandum account applies to EPWC's service area and establishes an accounting procedure such that EPWC shall track all CPUCAMA-related costs paid by EPWC including the cost of equipment, outside contractors, and additional supplies.

Definition and Tier Classification

Paragraph 6 of Standard Practice U-27-W (SP U-27-W) defines a memorandum account as:

> "…an accounting device used by a utility to record various expenses it incurs. The utility may later seek authorization from the Commission to recover the recorded amounts by passing them on to consumers in rates."

The establishment of a new memorandum account not previously authorized or required by the Commission requires disposition by Commission resolution. GO 96-B General Rule 7.6.1 states:

> "Industry Division disposition is appropriate where statutes or Commission orders have required the action proposed in the advice letter, or have authorized the action with sufficient specificity, that the Industry Division need only determine as a technical matter whether the proposed action is within the scope of what has already been authorized by statutes or Commission orders."

In this case, we have not previously required or authorized EPWC to establish a memorandum account to track the additional expenditures incurred by EPWC in connection with the Commission's audit of the 2011 and 2012 accounts. Consequently,

disposition of AL 80 does not constitute a "ministerial" act and requires disposition by Commission resolution.

This Advice Letter is properly filed as a Tier 3.

Memorandum Account Justification

According to SP-U-27-W, memorandum accounts track costs that the Commission has directed to be tracked and costs that have been approved to be tracked due to events of an exceptional nature.

Each AL requesting a new memorandum account must address the following:

1. The expense is caused by an event of an exceptional nature that is not under the utility's control;
2. The expense cannot have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case;
3. The expense is of a substantial nature as to the amount of money involved when any offsetting costs decreases are taken into account; and
4. The ratepayers will benefit by the memorandum account treatment.[1]

We will address the merits of AL 80 considering the aforementioned criteria.

1. **The expense is caused by an event of an exceptional nature that is not under the utility's control.**

EPWC is unable to forecast, nor predict, a state audit mandated by the Commission on such short notice.

2. **The expense cannot have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case.**

The Commission audit of the 2011 and 2012 accounts was a one-time project that does not occur on a continuous basis. The Commission may not authorize funds for outside consultants between general rate cases as these on neither ongoing nor consistent expenses.

3. **The expense is of a substantial nature as to the amount of money involved when any offsetting cost decreases are taken into account.**

[1] See SP-U-27-W (paragraph 44).

The Commission audit of the 2011 and 2012 accounts was substantial in nature and these costs are not presently including in EPWC's revenue requirements.

4. The ratepayers will benefit by the memorandum account treatment.

EPWC meets each of the criteria noted above, and establishing the CPUCAMA will benefit ratepayers by allowing EPWC to utilize outside consultants and accountants not presently included in EPWC's revenue requirements.

Additionally, ratepayers will also benefit from the memorandum account treatment for these costs by increasing utility transparency through a formal review of these costs as such matters are not foreseeable at the time of the general rate case.

Memorandum Account Approval

The CPUCAMA is not a guarantee of the eventual recovery of revenue shortfalls, and EPWC bears the burden of proving that the revenue shortfalls charged to the account are reasonable. If EPWC seeks recovery in rates of revenue shortfalls tracked in the CPUCAMA in its next general rate case, it has the burden of showing that: (1) it acted prudently when it incurred these revenue shortfalls; (2) the level of booked revenue shortfalls is reasonable; (3) the revenue shortfalls incurred are not covered by other authorized rates; and (4) it is appropriate for ratepayers, as a matter of policy, to pay for these categories of revenue shortfalls in addition to otherwise authorized rates.[2]

AL 80 should be approved, and EPWC should be authorized to establish the CPUCAMA consistent with Tariff Sheet No. 384-W, attached to this Resolution as Appendix A. The Division of Water and Audits (Division) finds that this request is compatible with the public interest, sound financial practices, and proper performance by EPWC as a public utility.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements, and EPWC is currently in compliance with all Commission rules, regulations, and requirements.

[2] See Resolution W-4824, Ordering Paragraph #5.

COMMENTS

Section 311(g)(2) provides that the 30-day review and comment period may be reduced or waived upon the stipulation of all parties in the proceeding. As this is an uncontested, matter the 30-day comment period is exempt.

FINDINGS

1. By Advice Letter (AL) No. 80, filed on November 1, 2013, East Pasadena Water Company (EPWC), a Class B water utility, seeks authorization to establish a California Public Utilities Commission Audit Memorandum Account (CPUCAMA) to track the actual costs of complying with the Commission audit of the 2011 and 2012 accounts.

2. On February 6, 2013, the California Public Utilities Commission (Commission) notified EPWC that it would audit EPWC's 2011 and 2012 annual reports.

3. EPWC relies on the services of outside consultants to perform its accounting function.

4. The efforts required to respond to Commission requests for audit-related documents and data requests will require outside consultants and accountants.

5. These costs are not presently included in EPWC's revenue requirements.

6. Absent a memorandum account for recovery of these additional costs, EPWC will not be able to recover these costs.

7. This memorandum account applies to EPWC's service area and establishes an accounting procedure such that EPWC shall track all the CPUCAMA-related costs paid by EPWC including the cost of equipment, outside contractors, and additional supplies.

8. The expense is caused by an event of an exceptional nature that is not under the utility's control.

9. The expense cannot have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case.

10. The expense is of a substantial nature as to the amount of money involved when any offsetting costs decreases are taken into account.

11. The ratepayers will benefit by the memorandum account treatment.

12. AL 80 should be approved, effective February 6, 2013, and EPWC should be authorized to establish the CPUCAMA.

13. This request is compatible with the public interest, sound financial practices, and proper performance by EPWC as a public utility

THEREFORE, IT IS ORDERED THAT:

1. East Pasadena Water Company's Advice Letter No. 80 seeking authorization to establish the California Public Utilities Commission Audit Memorandum Account, attached as Appendix A to this Resolution, for the purpose of tracking the actual cost of complying with the California Public Utilities Commission audit of the 2011 and 2012 accounts, from February 6, 2013 forward, is approved.

2. This resolution is effective today.

I certify that the foregoing resolution was duly introduce, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 27, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-4974 on all parties in these filings or their attorneys as shown on the attached lists.

Dated March 17, 2014, at San Francisco, California.

/ s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

East Pasadena Water Company

Advice Letter 80

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