

Memorandum

Date : December 8, 1982

To : Tony Irving

From : Public Utilities Commission — San Francisco -- B. A. Davis, Director 
Revenue Requirements Division

File No.:

Subject: Ratemaking Treatment Accorded Utilities' Regulatory Commission Expense

The Uniform System of Accounts for Water Utilities lists an Account No. 797, Regulatory Commission Expenses that includes all expenses incurred by the utility in connection with formal cases before regulatory commissions or other regulatory bodies, including payments made to a regulatory commission for fees assessed against the accounting utility for pay and expenses for the Commission. In general rate increase applications, the Commission staff has recommended and the Commission has adopted, the amortization of reasonable regulatory commission expenses because these expenses are considered abnormal and nonrecurring (after the test year). Currently, the staff has recommended a 3-year amortization period to be consistent with the step rate procedures.

The period of amortization is a vehicle to allow the utility to recover the expenses. If the utility were to follow for bookkeeping purposes the same treatment as in ratemaking, then on its books for operating expenses, Account 797, it would show the amount for the first year amortization and the balance, or the unamortized portion, included in the assets balance sheet account, under Account 146, Other Deferred Debits. As the utility in each accounting period charges Account 797 with the pro rata amortization expense, a contra entry is made to Account 146, to draw down the Other Deferred Debits. At issue in the Del Este and the Azusa Valley Water companies rate proceeding, was not the amortization period or allowing Regulatory Commission Expense as a ratemaking expense, but that the utility requested to receive a return (rate base treatment) on the unamortized balance (Other Deferred Debits). Rather than identifying the unamortized regulatory commission expense as a line item in the rate base, the utility included the amount in the development of the working cash allowance. The working cash allowance are funds in rate base to compensate utility stockholders for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of operating revenues from utility customers. The staff and many of the utilities developed reasonable amounts of working cash allowance following the procedures set out in the Commission staff's Standard Practice U-16,

Determination of Working Cash Allowance. The procedure is a very detailed basis of determining the allowance and is normally referred to as a lead/lag days needed - measuring the days expenses are paid in advance or in arrears from the time that the utility rendered service to its customers. Included in the detailed analysis is an analysis of funds advanced by the utilities, not reflected in current operating expenses, but deferred and accounted for in pre-payments or other deferred debits. In the two water rate cases, the utility included the unamortized amounts of regulatory commission expense (Other Deferred Debits) in the development of working cash allowance which in effect is requesting rate base treatment (increases the amount of working cash allowance which in effect increases rate base). The staff in those proceedings, recommended that unamortized regulatory commission expenses should not be included for a variety of reasons. The ALJ draft decision had sided with the utility, but the Commission adopted the staff's recommendation. It was in this context that Commissioner Grimes was concerned about future consistent treatment on this ratemaking issue and requested as a matter of Commission policy that henceforth unamortized regulatory commission expenses not be considered in working cash allowance. As I told you, the Management Committee agreed that we instruct our staff to follow the Commission's policy directive requested by Commissioner Grimes. Like all great organizations, there is always a soldier who in the end didn't get the word or didn't understand what the word was all about. I have asked Wes Franklin to once again spread the gospel to assure ourselves that the staff understands the ratemaking policy requested by Commissioner Grimes.

BAD:dlf

cc: M. Abramson
K. Chew
W. Franklin