

PUBLIC UTILITIES COMMISSION505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

September 3, 2004

Agenda ID #3877

TO: PARTIES OF RECORD IN RULEMAKING 01-12-009

This is the draft decision of Administrative Law Judge (ALJ) Janet A. Econome. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ ANGELA K. MINKIN BY PSW

Angela K. Minkin, Chief
Administrative Law Judge

ANG:jva

Attachment

Decision **DRAFT DECISION OF ALJ ECONOME (Mailed 9/3/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing Offset Rate Increases and Balancing Accounts in the Water Industry to Decide Whether New Processes are Needed.

Rulemaking 01-12-009
(Filed December 11, 2001;
Reopened July 23, 2003)

**OPINION GRANTING SOUTHERN CALIFORNIA WATER COMPANY'S
PETITION FOR MODIFICATION OF DECISION 03-06-072**

I. Summary

This decision grants Southern California Water Company's (SCWC) Petition for Modification (filed April 28, 2004) of Decision (D.) 03-06-072, as modified by D.04-03-041 and D.04-03-049.¹

II. The Petition for Modification

In D.03-06-072, the Commission revised the procedures for Class A water utilities to follow in order to recover offset expenses from balancing-type

¹ Reference to D.03-06-072 in this opinion is to D.03-06-072, as modified by D.04-03-041 and D.04-03-049 (order correcting error).

memorandum accounts existing on or after November 29, 2001. In its petition,² SCWC seeks to clarify that the procedures the Commission adopted in Appendix A to D.03-06-072 for recovering balancing-type memorandum accounts apply to accounts maintained on a ratemaking district basis, and not on an operational district basis, where such a distinction exists. According to SCWC, by way of analogy, the Commission has recently made the same kind of clarification in its decision adopting the revised Rate Case Plan procedures for water utilities. (*See* D.04-06-018, 2004 Cal. PUC LEXIS 276 *4, at footnote 4 [“In today’s decision, we use ‘district’ to refer to ratemaking districts and not operation districts.”])

SCWC explains that this issue affects its Region III, which has eight operating districts that are combined into one ratemaking district. In June 2000, the Commission authorized SCWC to consolidate eight individual operating districts, located primarily in the Los Angeles area, into a single Region III ratemaking district for ratemaking purposes, replacing stand alone rates in the eight operating districts with a region-wide tariff. (*See* D.00-06-075, 2000 Cal. PUC LEXIS 1114.)

Prior to the issuance of D.00-06-075, SCWC states that each of its operating districts maintained its own supply cost balancing account. After D.00-06-075 issued, SCWC states it closed the balancing accounts for each of the operating districts and established a new Region III supply cost balancing account.

² SCWC supplemented its petition on July 23, 2004 in response to a June 28, 2002, Administrative Law Judge (ALJ) ruling. In the text, we refer to the supplemented petition.

According to SCWC, since 2000, there has been only one supply cost balancing account for the Region III ratemaking district.

III. Water Division's Response

The Water Division agrees with SCWC that the Commission should clarify that the procedures for recovering balancing-type memorandum accounts should be applied on a ratemaking district basis, and not on an operational district basis, where such a distinction exists.³ The Water Division suggests supplemental language clarifying D.03-06-072 to effectuate this change, and also suggests that the Commission clarify what should go into the calculation of recorded rate base in this situation.

IV. Discussion

We adopt SCWC's modification of D.03-06-072 so that the procedures for SCWC's recovery of balancing-type memorandum accounts in its Region III are consistent with the procedures adopted in other Commission decisions concerning Region III. We therefore modify D.03-06-072 as set forth in the ordering paragraphs to clarify that the procedures contained in Appendix A to D.03-06-072 are to be applied on a ratemaking district basis. In our modification, we also add language suggested by the Water Division to ensure that the numbers recorded for the ratemaking district are verifiable against each operating district's numbers.

The ALJ asked the parties, assuming SCWC's petition is granted, what they believed should go into the recorded rate base and how the regional earnings test for balancing account recovery should be developed. According to SCWC, the numbers that go into the recorded rate base, as well as the earnings

³ On May 26, and June 10, 2004, the Commission's Water Division filed, respectively, a response and addendum to the petition, and on August 9, 2004, the division filed a reply to SCWC's supplemented petition.

test for balancing account recovery, should remain the same as currently formulated and should be unaffected by SCWC's requested modification. The Water Division generally agrees with SCWC, but recommends clarifying what should, and should not, go into rate base.

For clarification, we list the following items that should and should not go into the recorded rate base of the ratemaking district, in conformance with Water Division's recommendation.

The following items should be included in recorded rate base:

- Plant already constructed and placed in service, and other rate base items that have been authorized by the Commission, and
- Allowable plant that has been constructed and placed in service, and other allowable rate base items according to the Commission's Uniform System of Accounts.

The following items should not be included in recorded rate base:

- Plant and rate base items that the Commission has not approved (either by expressed disapproval or by postponing the decision for future consideration), and
- Non-ratemaking items.

Furthermore, the ratemaking district's recorded rate base should equal the sum of all recorded rate bases for the individual operating districts.

V. Comments on the Draft Decision

The draft decision of the ALJ in this matter as mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure.

VI. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Janet A. Econome is the assigned ALJ in this proceeding.

Findings of Fact

1. SCWC's Region III has eight operating districts combined into one ratemaking district, pursuant to D.00-06-075.
2. When SCWC established the Region III ratemaking district, it closed the balancing accounts for each of the eight operating districts and established a new Region III supply cost balancing account.

Conclusions of Law

1. It is reasonable to modify D.03-06-072 so that the procedures for SCWC's recovery of balancing-type memorandum accounts in its Region III are consistent with the procedures adopted in other Commission decisions concerning Region III.
2. SCWC's April 28, 2004 Petition for Modification of D.03-06-072 should be granted as set forth in the ordering paragraphs to clarify that the procedures contained in Appendix A to D.03-06-072 are to be applied on a ratemaking district basis.
3. In a ratemaking district's advice letter seeking recovery for balancing account memorandum accounts pursuant to D.03-06-072, the following items should be included in recorded rate base: (a) plant already constructed and placed in service, and other rate base items that have been authorized by the Commission and (b) allowable plant that has been constructed and placed in service, and other allowable rate base items according to the Commission's Uniform System of Accounts.

4. In a ratemaking district's advice letter seeking recovery for balancing account memorandum accounts pursuant to D.03-06-072, the following items should not be included in recorded rate base: (a) plant and rate base items that the Commission has not approved (either by expressed disapproval or by postponing the decision for future consideration) and (b) non-ratemaking items.

5. In a ratemaking district's advice letter seeking recovery for balancing account memorandum accounts pursuant to D.03-06-072, the ratemaking district's recorded rate base should equal the sum of all recorded rate bases for the individual operating districts, where this distinction exists.

6. In order for SCWC to file its advice letter seeking recovery for balancing account memorandum accounts pursuant to D.03-06-072 for its Region III, this decision should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company's Petition for Modification of Decision (D.) 03-06-072, as modified by D.04-03-041 and D.04-03-049, is granted to the extent set forth below.

2. At the end of the first paragraph in Section V.B.3 of D.03-06-072, the following text shall be added: "In today's decision, including its appendices, we use the term 'district' to refer to ratemaking districts and not to operating districts. If the ratemaking district comprises various operating districts, the ratemaking districts figures must be verifiable against each operating district's figures."

3. This proceeding is closed.

This order is effective today.

Dated _____, at San Francisco, California.