

Decision **(PROPOSED DECISION OF ALJ MILES (Mailed 6/16/2026))**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Commission Investigation into the
Financial and Operational Risks of
Commission Regulated Water
Utilities, and Whether Current
Ratemaking Procedures and Policies
Require Revisions.

Investigation 90-11-033

**DECISION GRANTING CALIFORNIA WATER ASSOCIATION
PETITION FOR MODIFICATION OF DECISION 94-06-033**

Summary

This decision revises prior Commission policy established in
Decision 94-06-033 to permit accrual of interest on Drought Lost Revenue
Memorandum Accounts.

This proceeding is closed.

1. Procedural Background

California Water Association (CWA) represents more than 90 utilities in
California. CWA's member utilities are regulated by the California Public
Utilities Commission (Commission) and serve more than six million people
throughout California.

On July 30, 2025, CWA filed a Petition for Modification (PFM) of Decision (D) 94-06-033 to modify Ordering Paragraph 1 to eliminate language stating that “interest shall not accrue for drought memorandum accounts or *conservation memorandum accounts that are subject to a 20-basis point reduction at the time of recovery.” CWA claims that:

1. The language is outdated as there have been significantly changed circumstances since 1994 regarding the Commission’s approach to responding to drought conditions; and
2. This language is inconsistent with the Commission’s practice over the past decade which has generally been to allow interest to accrue on Drought Lost Revenue Memorandum Accounts (DLRMA).

D.94-06-033 explains that, following the 1989 Loma Prieta earthquake, the Commission authorized all utilities, including water companies, to establish a Catastrophic Event Memorandum Account to permit recovery of costs for repairs and restoration of service in the event of declared disasters. In connection with this effort, in 1990, all Class A water companies were authorized to establish drought memorandum accounts and conservation memorandum accounts to track and later recover lost sales and costs attributable to drought and conservation.¹ D.94-06-033 summarized the results of a then-concurrent drought investigation proceeding (I.89-03-005) aimed at addressing the impacts of the California drought that ended with winter rains in 1992-1993. The decision allowed for balancing and memorandum accounts

¹ Citing D.94-02-043 (February 16, 1994).

maintained by regulated water utilities to bear interest at the 90-day commercial paper rate but also granted the unopposed recommendation of the Division of Ratepayer Advocates, predecessor to the Public Advocates Office at the California Public Utilities Commission (now known as Cal Advocates and referred to herein as Cal Advocates) to “exclude interest for any outstanding drought memorandum account and any conservation memorandum accounts.”

CWA argues that since 2014, when the Commission issued Resolution W-4976, several water utilities have established DLRMA – including language in the preliminary statements for those accounts expressly providing for accrual of interest in such accounts – and the Commission has approved advice letters with these provisions.² In D.20-08-047, the Commission agreed that “drought year data should be included in [water utility sales] forecasting”³ and discussed the benefits of DLRMA, stating that “if, in the future, there are Governor declared droughts, we expect that water utilities that no longer have Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) for tracking lost drought revenues will be provided an

² CWA cites San Gabriel Valley Water Company’s (“San Gabriel”) Preliminary Statement Section O for its DLRMA which was approved by the Commission in Advice Letter 582.9 Paragraph 3.c of that preliminary statement, which expressly directs San Gabriel to record *“monthly interest expense calculated on the average balance at 1/12 of the most recent month’s interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15 [], or its successor publication.”* CWA points out that the Commission has also approved language providing for accrual of interest in DLRMA for other water utilities such as San Jose Water Company (Advice Letter 592-A);¹¹ Great Oaks Water Company (Advice Letter 318);¹² Liberty Utilities (Apple Valley Ranchos Water) Corp. (Advice Letter 265-W);¹³ and Liberty Utilities (Park Water) Corp. (Advice Letter 265-W).

³ D.20-08-047 at 50.

opportunity to establish similar lost revenue memorandum accounts during the time of declared drought.”⁴

Accordingly, in this PFM, CWA argues that the Commission should now recognize that drought conditions are part of the on-going challenge of providing safe and reliable drinking water in California and that the conditions no longer represent unique circumstances as they did for the Commission in the early 1990s when D.94-06-033 was adopted.

1.1. Submission Date

This matter was submitted on January 26, 2026, upon the receipt of CWA's Response to the ALJ's Ruling dated January 22, 2026.

2. Jurisdiction

The Commission is an independent state agency of constitutional origin with far-reaching duties, functions, and powers over utilities.⁵ These powers include the ability to fix rates, establish rules, hold various types of hearings, provide specific monetary relief, and establish its procedures.⁶

3. Issue Before the Commission

The PFM requests revision of certain provisions set forth in D.94-06-033 that prohibited accrual of interest on DLRMA established by water utilities.

The issue that the Commission is asked to decide is whether its policy set forth in D.94-06-033 should be revised to permit accrual of interest on DLRMA accounts.

⁴ Id at 74-75.

⁵ *Pacific Gas & Electric Co. v. Public Utilities Commission* (2015) 237 Cal.App.4th 812, 820, citing Cal. Const., art. XII, §§ 1-6.

⁶ *San Diego Gas & Electric Co. v. Superior Court* (1996) 13 Cal.4th 893, 915.

4. Discussion

In D.94-06-033, Cal Advocates argued that the Commission should exclude interest for any outstanding drought memorandum account and any conservation memorandum account subject to a 20-basis point reduction.

Cal Advocates' witness testified that if interest were added to these accounts, then arguably the risk calculation of the accounts could be affected.

Cal Advocates based its argument on D.91-10-042.⁷ In a nutshell, the reasoning was that since the utility's risk was already being compensated (and mitigated) through the existing rate structure and the return on equity (ROE) adjustment, allowing interest on DLRMA's would constitute an unfair double recovery at the expense of ratepayers.

However, the purpose of paying interest is not only to compensate for risk, but to account for the time value of money, and the fact that future dollars are worth less than present dollars due to opportunity cost and the ongoing loss of purchasing power due to inflation. For DLRMA's, utilities are not allowed to immediately recover their lost revenues but must seek Commission authorization for amortization. Amortization of DLRMA's must go through a reasonableness review and recovery process which takes time. In addition to DLRMA funds losing purchasing power during this time period due to inflation, utilities miss out on other financial opportunities. Permitting interest

⁷ See 41 CPUC2d 521 (1991) Cal Advocates argued that the creation of the DLRMA shifted the risk of lost revenues from shareholders to ratepayers. Based on the Cal Advocates' empirical analysis that establishing this memorandum account would result in a significant reduction in business risk, the Commission ordered a 20 basis point reduction in the authorized return on equity (ROE) for utilities utilizing a DLRMA account.

on DLRMAs, as with all other memorandum and balancing accounts, mitigates the delay in recovering the lost revenues tracked in these accounts.

The rate effect of earning interest on DLRMAs is small. Using San Gabriel Valley Water Company's (San Gabriel Water) 2024 request approved in Resolution W-5282 as an example, denying interest reduced their revenue recovery from 2.1% to 1.9% for LA Division and 3.8% to 3.5% for Fontana Division. The monthly bill impacts decreased from \$83.62 to \$83.47 or 0.18% for LA Division and \$87.92 to \$87.67 or 0.28% for Fontana Division. Excluding accrual of interest on balances in Great Oaks Water Company's (Great Oaks) Conservation Lost Revenue Memorandum Account (a similar account to DLRMA), as well its Excess Usage Surcharge and Conservation Expense Memorandum Account described in its 2024 Advice Letter 326-W, denying interest reduced revenue recovery from 1.30% to 1.27%.

As noted, Water Division practice over the last several years has been to routinely approve tariff language and advice letters (AL) of water utilities that included accrual of interest in DLRMAs. With respect to the PFM at issue here:

1. The Commissions subject matter experts in Water Division recommend we abandon the prohibition on interest; and
2. Cal Advocates has not objected to the PFM.

Accordingly, it appears appropriate to permit water companies subject to the jurisdiction of this Commission to accrue interest on DLRMAs. For the purpose of computing interest, it makes sense to use the 90-day commercial

paper rate,⁸ which is similar to the rate of return for short term United States Treasuries.⁹ In general, the interest rate for short-term U.S. Treasuries is widely regarded as the benchmark for a “risk free” rate of return.

5. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the “Public Comment” tab of the online Docket Card for that proceeding on the Commission’s website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding. There has been no public comment received on this PFM proceeding.

6. Conclusion

By this Decision, the Commission departs from the prohibition established in D. 94-06-033¹⁰ and will now prospectively permit interest to accrue on DLRMAs. Accordingly, Ordering Paragraph 1 of D.94-06-033 is modified as follows:

All water companies subject to the jurisdiction of this Commission are authorized to add interest at the 90-day commercial paper rate to balancing account and memorandum account postings that occur on or after the effective date of this Order. Interest shall be calculated in

⁸ i.e., the 90 Day Nonfinancial Commercial Paper Interest rate as reported in the Federal Reserve Statistical Release

⁹ Treasuries are debt securities issued by the U.S. Department of the Treasury in exchange for loans made by investors to the U.S. government. They help fund federal operations and are backed by the full faith and credit of the US. Government, which makes them generally regarded as some of safest investments globally. E.g., Compare <https://www.federalreserve.gov/releases/cp/>; [CD, Bond & Interest Rates | Edward Jones Page](#).

¹⁰ See D.94-06-033, Ordering Paragraph 1.

the same manner as that in place for calculation of interest on energy utility balancing accounts.

We expressly authorize prospective accrual of interest on:

1. San Gabriel Valley Water balances in its DLRMA; and
2. Balances in Great Oaks Conservation Lost Revenue Memorandum Account (a similar account to DLRMA), as well its Excess Usage Surcharge and Conservation Expense Memorandum Account described in its 2024 Advice Letter 326-W.

Interest on DLRMAs shall be calculated on a monthly basis by applying a rate equal to one-twelfth of the 90 day commercial paper rate, to the average of the beginning of month and the end of month balances.

7. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties on June 16, 2026, in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed by California Water Association (CWA) on July 6, 2026. CWA comments that the Commission should revise the Proposed Decision to remove the limitation that the accrual of interest in DLRMAs may only occur prospectively. CWA points out that water utilities which currently hold outstanding DLRMA balances have already been subjected to years of inflation and delayed recovery. They contend that prohibiting interest accrued on the existing balances denies the utilities compensation for the time value of money and results in the exact financial detriment that the Proposed Decision seeks to cure.

The rationale presented by CWA is persuasive and the revision requested is granted. We note that disallowing interest from these existing accounts would

mean taking affirmative steps to remove the interest, when - as noted earlier in this decision - the Commission has articulated a clear determination that recovery of interest is appropriate as evidenced by its recent practice. While modifying this decision to allow it to apply to existing accounts may result in a de minimis increase in cost to ratepayers, this is the case as a result of our decision to allow interest accrual at all. For this reason, as a matter of sound ratemaking policy, it makes sense to permit water utilities to accurately capture the true expenses that they have incurred.

8. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and Patricia B. Miles is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. CWA submitted a Petition for Modification of Decision (D) 94-06-033 issued in June 1994 (PFM), on behalf of itself and its member water utility companies that are subject to the jurisdiction of the CPUC.
2. Since 2014, the Commission's Water Division has approved tariff language and some advice letters providing for accrual of interest in DLRMA accounts.
3. Drought conditions no longer represent unique circumstances as they did for the Commission in the early 1990s when D.94-06-033 was adopted.
4. It is financially sound to permit water providers to accrue interest on DLRMAs.
5. Although the PFM is unopposed, it is appropriate to mail this Decision for comment to ensure widespread industry review.

Conclusions of Law

1. Water companies subject to the jurisdiction of this Commission should be authorized to add interest at the 90-day commercial paper rate to DLRMAs, as they currently do for balancing and memorandum accounts.

2. Interest should be allowed to accrue on DLRMAs and similar drought-related accounts after the effective date of this decision.

3. San Gabriel Valley Water Company's 2024 request to accrue interest on amortized balances in its DLRMA should be approved.

4. Great Oaks Water Company's Conservation Lost Revenue Memorandum Account and its Excess Usage Surcharge and Conservation Expense Memorandum Account described in its 2024 Advice Letter 326-W, should be approved to accrue interest.

O R D E R**IT IS ORDERED** that:

1. Ordering Paragraph 1 of D.94-06-033 is modified as follows:

All water companies subject to the jurisdiction of this Commission are authorized to add interest at the 90-day commercial paper rate to balancing account and memorandum account postings. Interest shall be calculated in the same manner as that in place for calculation of interest on energy utility balancing accounts.

2. Water companies subject to the jurisdiction of this Commission are authorized to accrue interest at the 90-day commercial paper rate to drought lost revenue memorandum accounts and similar drought-related accounts as they are for all other balancing account and memorandum accounts.

3. Investigation 90-11-033 is closed.

This order is effective today.

Dated August ____, 2026, at San Francisco, California