Decision 26-10-048 October 29, 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 The language is outdated as there have been significantly changed circumstances since 1994 regarding the Commission's approach to responding to drought conditions; and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 maintained by regulated water utilities to bear interest at the 90-day commercial paper rate but also granted the unopposed recommendation of the

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

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 DLRMAs – 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 DLRMAs, 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 opportunity to establish similar lost revenue memorandum accounts during the time of declared drought."[4]

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[2] CWA cites San Gabriel Valley Water Company's 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 DLRMAs 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.20-08-047at 50.

[4] Id at 74-75.

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 DLRMAs 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 and similar accounts.

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[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 DLRMAs 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 DLRMAs, utilities are not permitted to immediately recover their lost revenues but must seek Commission authorization for amortization. Amortization of DLRMAs must go through a reasonableness review and recovery process which takes time. In addition to DLRMA funds losing purchasing power during this time due to inflation, utilities miss out on other financial opportunities. Permitting interest on

[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.

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

In this PFM, two factors guide the Commission's analysis:

1. No party has objected to the PFM, including Cal Advocates, which originally proposed the prohibition on accrual of interest for DLRMAs adopted in D.94-06-033; and
2. Although D.94-06-033 expressly excluded interest accrual on drought memorandum accounts and conservation memorandum accounts, these types of memorandum accounts appear to have been used very infrequently prior to 2014. However, from 2014 through 2024, the Commission consistently authorized interest on DLRMAs, through multiple resolutions. It would not be reasonable to expect regulated entities to identify or challenge a rule in a decision (issued decades prior), that the Commission itself did not consistently follow.

Public Utilities Code Rule 16.4(d)[8] requires parties to file petitions for modification within one year of the effective date of the decision that they seek to modify. When a party files after one year, Rule 16.4(d) requires the party to explain why it could not file earlier. The rule authorizes the Commission to summarily deny a petition if the explanation does not justify the late filing. Although we recognize that CWA did not file this PFM within one year of the effective date of D.94-06-033, we find that unique circumstances justify acceptance, rather than summary denial of this PFM.

[8] 16.4. (Rule 16.4) Petition for Modification; Section 1701, Public Utilities Code; and Section 2, Article XII, California Constitution. Reference: Section 1708, Public Utilities Code.

Accordingly, it appears appropriate to accept CWA's PFM and to consider whether the Commission should prospectively permit water companies subject to the jurisdiction of this Commission to accrue interest on DLRMAs.[9]

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. 94-06-033[10] 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 the same manner as that in place for calculation of interest on energy utility balancing accounts.*

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[9] For the purpose of computing interest, it is consistent with adopted practices for interest on balancing accounts to use the 90-day commercial paper rate[9], 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.

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

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 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 somewhat persuasive, however, we have determined that best practice here is to decline to allow interest recovery that was previously denied to San Gabriel Valley Water Company (San Gabriel Water) and Great Oaks Water Company (Great Oaks Water). First, we note that neither San Gabriel Water nor Great Oaks Water filed an appearance in this proceeding or even filed comments. Second, the rate effect of denying interest recovery on balances already in Great Oaks Water's DLRMA and on balances already in San Gabriel Water's Conservation Lost Revenue Memorandum Account (CLRMA) - a similar account to DLRMA - is small. Using San Gabriel

Water's 2024 request in Resolution W-5282 as an example, denying interest only reduced their revenue recovery from 2.1% to 1.9% for the LA Division and 3.8% to 3.5% for the Fontana Division. Excluding accrual of interest on balances in Great Oaks Water's CLRMA, as well as its Excess Usage Surcharge and Conservation Expense Memorandum Account described in its 2024 Advice Letter 326-W, only reduced its revenue recovery from 1.30% to 1.27%.

Although we agree that revision of Ordering Paragraph 1 in D.94-06-033 is appropriate, we are also concerned that making the revision retroactive would suggest that other water companies should take affirmative steps to recalculate interest accrual and seek revenue recovery on prior balances in their DLRMA and similar accounts. Accordingly, the revisions to D.94-06-033 that we adopt in this decision are prospective.

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 and similar accounts, as they currently do for balancing and memorandum accounts.

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

3. Interest recovery on San Gabriel Water's amortized balances was appropriately excluded in Resolution W-5282.

4. San Gabriel Water's current tariff provides for the accrual of interest on balances in its DLRMA, and it may accrue such interest prospectively.

5. Interest recovery on amortized balances in Great Oaks Water's CLRMA and its Excess Usage Surcharge and Conservation Expense Memorandum Account (described in its 2024 Advice Letter 326-W) were appropriately excluded.

6. Great Oaks Water Company's tariff provides for the accrual of interest in its CLRMA and Excess Usage Surcharge and Conservation Expense Memorandum Account, and it may accrue such interest prospectively.

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 that occur on or after the effective date of this Order. 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 prospectively 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, effective as of the date of this decision.

3. Investigation 90-11-033 is closed.

This order is effective today.

Dated October 29, 2026, at San Francisco, California

JOHN REYNOLDS
President
DARCIE L. HOUCK
KAREN DOUGLAS
MATTHEW BAKER
CHRISTINE HARADA
Commissioners