

PUBLIC UTILITIES COMMISSION

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SAN FRANCISCO, CA 94102-3298

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JUL 19 1993

PETE WILSON, Governor

DANIEL CONWAY



July 14, 1993

File No. 602-10

TO: ALL REGULATED WATER UTILITIES
DEPARTMENT OF HEALTH SERVICES

On June 23, 1993, the California Public Utilities Commission passed Resolution No. W-3784.

This resolution gives all regulated water utilities the right to establish memorandum accounts to recover fees and expenses, including the annual fees due the Department of Health Services, and for all water testing expenses not already included in their operating expenses. These costs are passed on to the water utilities' customers in the form of an offset surcharge.

To retrieve these fees, utilities must file an advice letter showing the proper surcharge on the proper tariff sheet. The advice letter must include an explanation of the calculation and copies of the bills. The advice letter becomes effective 5 days after staff approval.

Please note that when a utility seeks to recover these fees, a public notice is required in accordance with General Order No. 96-A.

Should you have any questions regarding this resolution, you may phone me at (415) 703-1739.

Very truly yours,

A handwritten signature in cursive script that reads "Fred L. Curry".

FRED L. CURRY, Chief
Water Utilities Branch

Enclosure

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3784
June 23, 1993

R E S O L U T I O N

(RES. W-3784), ORDER AUTHORIZING WATER UTILITIES TO ESTABLISH MEMORANDUM ACCOUNTS FOR RECORDING CHARGES RESULTING FROM (1) THE ENVIRONMENTAL PROTECTION AGENCY'S ADOPTED NEW NATIONAL PRIMARY DRINKING WATER REGULATIONS, AND (2) CALIFORNIA DEPARTMENT OF HEALTH SERVICES MANDATED FEES AND EXPENSES, AND AUTHORITY TO FILE ADVICE LETTERS FOR THE RECOVERY OF SUCH CHARGES AND EXPENSES.

BACKGROUND

The United States Environmental Protection Agency (EPA) promulgated National Primary Drinking Water Regulations (NPDWRs) for lead and copper on June 7, 1991, (56 FR 26460). NPDWRs established Maximum Contaminant Level Goals, Action Levels, monitoring and reporting requirements, and treatment technique requirements which are to be implemented when either contaminant exceeds its Action Level. NPDWRs have added extra costs for water testing to the water utilities. Additionally under Sections 4020 and 4020.5 of the Health and Safety Code, State Department of Health Services is now billing twice yearly instead of annual billings anticipated in Resolution No. W-3641. These costs were unforeseen by the water utilities and therefore not accounted for in their last general rate cases (GRCs). These costs are also not in their control and, therefore, may be allowed to be passed on by an offset surcharge. Section 454 of the Public Utilities Code requires that any charges to the customers of regulated water utilities must be authorized by the Commission.

DISCUSSION

Under the lead and copper regulations all water systems must collect and test samples at the taps of customers with lead service lines or lead-soldered copper plumbing for lead and copper analysis every six months. Samples for other factors must be taken from within the distribution system every six months, and from entry points to the distribution system every two weeks. Both the number of sampling sites and the frequency may be reduced if, for three years, the action level is met or if optional treatment is maintained for the water system.

Sections 4020 and 4020.5 of Health and Safety Code require that DHS' Office of Drinking Water (ODW) develop operating cost fees on the basis of the actual costs to that office of carrying out the activities connected with the issuance of permits, conducting inspections and surveillance, taking enforcement actions, and the costs of administering any contracts with local health officers. At the time Resolution No. W-3641, dated May 8, 1992, allowing water utilities to recover ODW fees was issued, it was anticipated that these fees would eventually be included in base rates. However, on

account of large variation in each billing which is based on actual cost to ODW, the inclusion of such costs in base rates at this time is not possible.

Since these costs have not been factored into Commission regulated utilities authorized rates for service, the Water Utilities Branch (Branch) believes it appropriate that action be taken by the Commission to protect these utilities from the adverse consequences of such unanticipated expense. Since the utilities will be unable to know what these expenses are until actual water-testing costs are incurred, the matter of retroactive ratemaking becomes an issue. Additionally, there is no Commission authorized procedure for considering such costs in rates.

Given these circumstances, the Branch believes it appropriate to authorize any utility that was not allowed coverage of such costs in its last general rate proceeding to establish a memorandum account in which to record payment of water testing costs resulting from the EPA regulations and ODW fees. The Branch also believes it appropriate to allow such utilities to subsequently request rate recovery of the payments recorded in the memorandum account by advice letter under the provisions of General Order No. 96-A (G.O. 96-A), and let such increases become effective upon verification by Branch. Utilities opening such a memorandum account should be authorized to keep it held open until the utility's next general rate proceeding. At that time, future costs to the utility for this purpose should be reasonably known based on recorded information. If this proves not to be the case, as part of that rate proceeding the utility may be authorized to establish a balancing account for recovery of these costs.

NOTICE AND PROTEST

Public notice is not required at this time. When a utility seeks recovery of expenses recorded in the memorandum account, public notification will be required as prescribed in the advice letter procedures of G.O. No. 96-A.

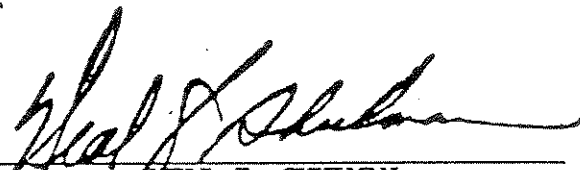
FINDINGS AND CONCLUSIONS

1. EPA adopted new NPDWRs for lead and copper.
2. ODW developed and adopted new operating cost fees.
3. These new rules will result in additional sampling and testing costs to Commission regulated water utilities.
4. Utilities regulated by the Commission and subject to the provisions of the NPDWRs and ODW should be authorized to establish a memorandum account in which to record payments of water sampling and testing costs and ODW fees.
5. Subsequent to recording such payments in a memorandum account utilities should be authorized to file an advice letter under the provisions of General Order No. 96-A requesting recovery of the amount in the account not more than once each calendar year.

IT IS ORDERED that:

1. Each water utility regulated by the Commission and subject to the provisions of the National Primary Drinking Water Regulations and Department of Health Services' Office of Drinking Water fees and expenses is authorized to establish a memorandum account in which to record payment of water sampling and testing costs which are not already covered in rates and payments made to Department of Health Services.
2. Each water utility having recorded payment of costs as authorized above, is authorized to file an advice letter as prescribed by General Order 96-A requesting recovery of those costs, once each calendar year. The filing shall become effective not less than five days after filing and after Water Utilities Branch verifies the accuracy of supporting computations submitted by a utility.
3. The memorandum account as authorized above may remain open until the utility's next general rate proceeding, or January 1, 1997, whichever occurs first.
4. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 23, 1993. The following commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners