

# Memorandum

File

Date : September 20, 1989

From : FAIR POLITICAL PRACTICES COMMISSION  
Blanca M. Breeze

Subject : T-89-546

On September 5, 1989, I spoke with Arthur G. Kidman, attorney for the Upper San Gabriel Valley Municipal Water District. On behalf of his client, Mr. Kidman asked whether a board member, who is also an employee of a retail water company within district boundaries, should disqualify from participating in a decision to lower the water rates charged to retail water distributors.

Retail water distributors are regulated public utilities. It appears that any increase or decrease in water costs is passed directly to the consumer. (PUC 792 and 792.5.) We have provided written advice on the subject of energy utilities which are heavily regulated (See Damesyn Advice Letter, No. A-84-111) but not on the subject of water distributors.

I advised Mr. Kidman that the matter was too complex to resolve with a telephone call and that the public official should disqualify from participating in the decision due to an apparent conflict of interest under 18702.1 (nexus) and 18702.2.

MCCORMICK, KIDMAN & BEHRENS

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DOUGLAS J. EVERTZ  
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September 7, 1989

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SEP 13 3 28 PM '89  
FPPC

Mr. Robert G. Berlien  
General Manager  
Upper San Gabriel Valley  
Municipal Water District  
11310 East Valley Boulevard  
El Monte, California 91731

Re: Conflict of Interest Advice Concerning Rates

Dear Bob:

This letter is to confirm advice that I provided to the Board of Directors at its regular meeting of September 6. An issue was raised at that meeting, and at the August 2 meeting, concerning whether Upper San Gabriel Valley Municipal Water District's ("USG") Director Nicholson should abstain from voting on questions involving the establishment of water rates. Specifically, the Board was considering how to implement a seasonal storage pricing program recently adopted by the Metropolitan Water District of Southern California ("MWD"). Under one proposal, USG would reduce some of its water rates in conformity with MWD's seasonal storage program. An alternate proposal would have USG leave its rates as they are and retain the differential between the USG rate and the MWD rate in a special fund to be used for Basin improvements, probably water quality improvements.

The conflict of interest issue arises from the fact that Mr. Nicholson is an officer, investor, and employee in the San Gabriel Valley Water Company ("Company"). The change in water prices under consideration would affect the cost of groundwater replenishment service to the Main San Gabriel Basin Watermaster and it is foreseeable that USG's decisions will be reflected in Watermaster assessments. This, in turn, will affect the Company's cost to produce water to be served to its customers. Since the Company is one of the largest groundwater producers in the Basin, it is foreseeable that the dollar amount of this cost change will be substantial.

I advised the Board that there is no clear answer to the question of whether Mr. Nicholson's participation in the discussion

Mr. Robert G. Berlien

September 7, 1989

Page Two

and decision on these water rates questions creates a conflict of interest. After a lengthy explanation of the tension between some definitions in the Regulations of the Fair Political Practices Commission ("FPPC") and State Statutes and Regulations governing public utility pricing, I advised that it may be risky for Mr. Nicholson to vote but that I could not rule conclusively that he is disqualified from voting. Mr. Nicholson has indicated to me an understanding of the risks involved and I am aware that he has been advised by his own legal counsel on this matter.

I did advise that based upon logic and my own legal reasoning, I find the argument advanced by Mr. Nicholson's attorney to be persuasive. It appears that under State law, the Company is required to pass production cost savings on to its customers. Thus it appears rather conclusive that a decision by USG to change water rates will not have any material financial effect on the Company. The FPPC Regulations, however, establish thresholds for determining material financial effect based upon changes in gross revenues and/or changes in expenses. Consequently, the logical conclusion that there can be no material financial effect on the Company is at odds with the express wording of the FPPC Regulations.

I have discussed this issue with an attorney in the Legal Division staff of the FPPC, but was unable to get definitive advice because of time constraints. I did get an indication that the issue is probably one of first impression, but the argument that there is no conflict of interest seems persuasive. The matter is so complex, however, that at minimum, an FPPC legal staff conference would be required to render informal advice, and a more formal request for written advice would be preferred. The process of obtaining formal written advice might require 30 days.

For your records, I am enclosing a staff memorandum from this office which was sent to the FPPC. The memorandum, in a very summary fashion, lays out the legal arguments involved in this situation.

The Board concluded that it could not wait 30 days for a resolution of this matter because of time constraints involved in the Watermaster setting assessments and the producers adjusting their own water rates. The Board proceeded with the issues. The proposal for USG to retain the rate differential for a water facilities fund lost on a 2 to 3 vote, with Mr. Nicholson voting in the majority. If his vote was not counted, the motion to adopt the proposal would have still failed on a 2 to 2 vote, since 3 affirmative votes are required for the USG Board to adopt any proposition. The proposal to change USG water rates to pass

Mr. Robert G. Berlien  
September 7, 1989  
Page Three

through the MWD seasonal pricing program was adopted on a 3 to 2 vote, with Mr. Nicholson again in the majority. If Mr. Nicholson's vote were not counted, that proposal also would fail.

Many public agency attorneys would have advised that Mr. Nicholson should abstain in order to err on the side of caution. I have certainly rendered that type of advice myself. In this circumstance, however, I was persuaded that (1) the answer to the conflict of interest issue was not clear, though I think the argument against a conflict of interest is persuasive; (2) advice to abstain might have created a very ambiguous situation since neither proposal could have been adopted; and (3) Mr. Nicholson was well advised concerning the risks involved and he felt that he had no conflict of interest and had a strong desire to participate in this important public policy issue. For these reasons I felt it would have been very inappropriate to rule as a matter of law that Mr. Nicholson was disqualified from voting or that his vote should not be counted.

There was indication from one member of the audience that we may not have heard the last of this issue in that a complaint may be filed with the Enforcement Division of the FPPC. Though I hope that this does not occur, it seems to me that all parties concerned have been properly forewarned.

Please call if anything occurs to you that should be pursued in connection with this matter.

Very truly yours,

MCCORMICK, KIDMAN & BEHRENS

  
Arthur G. Kidman

AGK/rb  
Enclosure  
cc: Blanca Breeze  
Legal Division, FPPC

MEMORANDUM

TO : ARTHUR G. KIDMAN  
FROM : DOUGLAS J. EVERTZ  
RE : SUMMARY TO BE PRESENTED TO FPPC RE DISTRICT'S VOTE ON  
WATER PRICING POLICY  
DATE : AUGUST 31, 1989

=====

FACTS TO BE PRESENTED

This law firm represents the Upper San Gabriel Valley Municipal Water District ("District"). The District is a water wholesaler. One of the District's directors is an officer, investor and employee of a retail water company ("Company") which sells to consumers. The District is considering a pricing policy change which would indirectly but foreseeably affect the cost of water produced by the Company. The cost change, however, will pass directly to the Company's consumers as required by Public Utility Commission Regulations, and will have no foreseeable financial effect on the Company itself.

ISSUE TO BE RESOLVED

Whether the director has a "material financial interest" in the District's consideration of the water pricing policy change? For the reasons described below, our preliminary opinion is that the director does not have a "material financial interest" in the decision because under state statutes and regulations governing regulated public utilities, any change in water production costs

automatically will be off set by a corresponding change in water revenue so that there is no net change in the Company's rate of return or profitability. Accordingly, we believe that there would be no conflict of interest if the director were to participate in the decision.

#### ANALYSIS

The pertinent sections of the Political Reform Act are Government Code Sections 87100 and 87103. Government Code Section 87100 provides:

"No public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest."

Government Code Section 87103 provides in part:

"An official has a financial interest in the decision within the meaning of Section 87100 if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family or on:

(a) Any business entity in which the

public official has a direct or indirect investment worth \$1,000 or more.

...

(d) Any business entity in which the public official is a director, officer, partner, trustee, employee, or holds a position of management."

For the sake of simplification, it may be assumed that the director is an investor, officer and employee as described in Government Code Section 87103(a) and (d). As stated above, the only issue is whether the director has a material financial interest in the decision.

2 Cal. Admin. Code §18702 sets forth the criteria to be used in determining whether a governmental decision will have a material financial effect on the governmental official. Section 18702 provides in part:

"(a) Specific Rules. The following regulations, governing specific types of governmental decisions which affect certain specific types of economic interest, shall be utilized in determining whether the reasonable foreseeable effects of the decision will be material with respect to the economic interests.

...

(2) Economic Interest Indirectly  
Involved in the Decision:

(A) Business entities-Section  
18702.2...."

2 Cal. Admin. Code §18702.2 provides in part:

"The effect of a decision is material as to a  
business entity in which an official has an  
economic interest if any of the following  
applies:

...

(g) For any business entity not covered by  
subdivisions (a), (b), (c), (d), (e) or (f):

(1) The decision will result in an  
increase or a decrease in the gross  
revenues for a fiscal year of  
\$10,000 or more; or

(2) The decision will result in the  
business entity incurring or  
avoiding additional expenses or  
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expenses for a fiscal year in the  
amount of \$2,500.00 or more; or

(3) The decision will result in an  
increase or decrease in the value of  
assets or liabilities of \$10,000 or  
more."

While a strict application of Section 18702.2(g) would suggest that a conflict of interest exists because the District Board's decision will significantly change the Company's existing expenses, it is our opinion that a conflict does not exist because any change in Company costs which result from the District Board's decision will be automatically off set by a corresponding revenue change. Specifically, all cost changes must be passed directly to the consumer.

The Company is a regulated public utility, i.e. its rates are subject to the jurisdiction of the Public Utility Commission. Public Utilities Code §§792 and 792.5 authorize the Public Utilities Commission to change customers' water rates for increases or decreases in certain operating expenses such as changes in water costs. Sections 792 and 792.5 also set forth a requirement that each public utility establish a "reserve account" to track its costs of production. The Public Utility Commission's reserve account procedures are designed to pass through to the customer the entire amount of any increase or decrease in water costs. Public Utility Commission Resolution No. W-3438 is the most current Commission action regarding the Company's reserve account and requires the Company to maintain this reserve account pursuant to Public Utilities Code Section 792.5.

The intended result of the Commission's reserve account procedure is that utilities such as the Company remain financially unaffected by changes in the water costs. Accordingly, the Company will realize no financial benefit if the District lowers

its rates and thereby brings about a decrease in water costs of the Company.

Because the Company remains financially unaffected by changes in water costs, it is our opinion that the director cannot be deemed to have a financial interest in the decision of the District's Board to increase or decrease water rates.

Our concern, however, is that under 2 Cal. Admin. Code §18702.2(g), the District's decision on the water pricing policy would technically have a material financial effect on the Company because there would be a substantial change in expenses incurred by the Company, followed by a change in revenue.

While a strict reading of Section 18702.2(g) would suggest that a conflict of interest exists because of the changes in costs and revenue, we believe there is no conflict. A technical application of Section 18702.2(g) would be elevating form over substance because the District's decision on its water pricing policy will have no real effect on the Company.

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FAX TRANSMISSION

DATE: 9-5-89 TIME STARTED: 3:05 AM/PM (PM)

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CLIENT AND MATTER NUMBER: 12308-001

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TRANSMISSION TO: FPPC  
Attn: Blanca Brezler

re: Conflict on Interest  
Question. Pls. call tomorrow am

TELEPHONE NO.:

FAX NO.: 916-327-2026

TRANSMISSION FROM: Doug Evertz

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## MEMORANDUM

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FAX TRANSMISSION

DATE: 9-5-89 TIME STARTED: 4:00 AM/PM (P)  
TITLE OF DOCUMENT: Docs. re Upper District  
Conflict Question  
CLIENT AND MATTER NUMBER: 123DB-001  
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TELEPHONE NO.: \_\_\_\_\_  
FAX NO.: 916 327-2026  
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## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Water Utilities BranchRESOLUTION NO. W-3438  
April 12, 1989RESOLUTION

(RES. W-3438) SAN GABRIEL VALLEY WATER COMPANY, (SGV), LOS ANGELES COUNTY DIVISION. ORDER AUTHORIZING AN OFFSET RATE INCREASE PRODUCING \$436,000 OR 3.3% ADDITIONAL ANNUAL REVENUE.

By Advice Letter (AL) 244, filed February 27, 1989, SGV requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates to offset: (1) a \$147,100 increase in purchased power and natural gas costs, 2) a \$284,100 increase due to an undercollection in the purchased power and purchased water balancing account, and (3) \$4,800 in related increases in uncollectibles and franchise requirements. SGV's Los Angeles County Division serves about 43,000 customers in portions of Arcadia, Baldwin Park, El Monte, City of Industry, Irwindale, La Puente, Montebello, Monterey Park, Pico Rivera, Rosemead, San Gabriel, Santa Fe Springs, South El Monte, West Covina, Whittier and vicinity, Los Angeles County.

The present rates became effective on April 13, 1988, pursuant to Resolution W-3392 which authorized an offset rate increase. The last general rate increase became effective on January 1, 1984 pursuant to Decision 83-10-002 in which the Commission found rates of return on rate base of 11.05% for 1983, 11.17% for 1984, and 11.37% for 1985 reasonable, with a 14.50% return on equity. This offset increase will not result in a rate of return greater than last authorized.

Since the portion of the requested increase caused by changes in the cost of purchased power and natural gas is related to water consumption, it is applied to the quantity blocks for metered customers. Rates for all quantities of water delivered are increased by \$0.010 per Ccf (one Ccf equals one hundred cubic feet). In accordance with the Commission's balancing account policy for water utilities, the surcharge for all water sold is increased to \$0.044 per Ccf for a twelve month period in order to amortize the undercollection in SGV's purchased power and purchased water balancing account.

The Water Utilities Branch has reviewed the latest pump efficiency tests and found them satisfactory.

SGV has given public notice of this increase request by publishing in local newspapers on March 1 and 2, 1989. No customer protests or correspondence has been received.

SGV has a variety of programs designed to promote water conservation including monthly reminders in water bills, leak detection service, free conservation pamphlets, and free water conservation kits.

Service is satisfactory. There are no Commission orders requiring system improvement, nor are there significant service problems requiring corrective action.

The following table shows typical bills for residential customers at various usage levels at present and proposed rates:

General Metered Service (5/8 x 3/4-inch meters)

<u>Monthly Usage</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
<u>Los Angeles County Tariff Area</u>			
300 cu.ft.	\$ 5.80	\$ 5.88	1.4%
1,000	10.43	10.71	2.7
2,000	17.05	17.61	3.3
2,300 (average)	19.04	19.68	3.4
3,000	23.67	24.51	3.5
4,000	30.29	31.41	3.7
5,000	36.91	38.31	3.8
<u>Vallecito Zone II Tariff Area</u>			
300	6.38	6.47	1.3
1,000	11.53	11.81	2.4
2,000	18.88	19.44	3.0
2,800 (average)	24.76	25.64	3.2
3,000	26.23	27.07	3.2
4,000	33.58	34.70	3.3
5,000	40.93	42.33	3.4

(All rates include the balancing account surcharge)

After investigation by the Water Utilities Branch, the Commission finds that the requested rate increase hereby authorized is justified, and that the resulting rates are reasonable. SGV is directed to maintain its balancing account as required by Public Utilities Code Section 792.5.

IT IS ORDERED that San Gabriel Valley Water Company is authorized, on the effective date herein, to make effective revised Schedule Nos. LA-1, LAV-1 and LA-3L attached to Advice Letter No. 244 and to cancel the presently effective rate schedules for water service.

This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 12, 1989. The following commissioners approved it:

STANLEY W. HULETT

PATRICIA M. ECKERT

FREDERICK R. DWDA

G. MITCHELL WILK

JOHN B. OHANIAN

Commissioners



VICTOR R. WEISSNER  
Executive Director



ADDRESS ALL COMMUNICATIONS  
TO THE COMMISSION  
CALIFORNIA STATE BUILDING  
SAN FRANCISCO, CALIFORNIA 94133  
TELEPHONE: (415) 557-

**Public Utilities Commission**  
STATE OF CALIFORNIA

May 31, 1983

FILE NO.

Gentlemen:

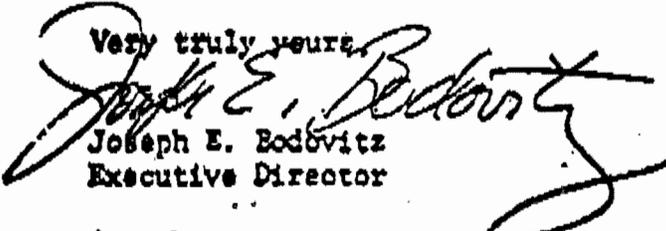
Since late 1981, the Commission staff and the water utility industry have met on several occasions to discuss balancing account procedures and ways to improve them. After careful consideration of all points of view presented at these meetings, the staff prepared the attached "Procedures for Maintaining Balancing Accounts for Water Utilities." These procedures were presented to and adopted by the Commission at the conference of May 18, 1983. ✓

As a result, all water utilities are directed to:

1. Terminate existing balancing account procedures as of June 30, 1983.
2. Beginning July 1, 1983, to use the attached procedures for maintaining balancing accounts.

If you have any questions on these revised procedures, please contact Wes Franklin at (415) 557-0282 or Bob Bennett at (415) 557-1848.

Very truly yours,

  
Joseph E. Bodovitz  
Executive Director

Attachment

## PROCEDURES FOR MAINTAINING BALANCING ACCOUNTS FOR WATER UTILITIES

### 1. PURPOSE

The purpose of a balancing account is to track the under-collection or overcollection associated with the incidence of an expense change and the authorization of revenue to offset the expense change.

### 2. APPLICABILITY

Pursuant to Section 792.5 of the Public Utilities Code, a balancing account is to be kept for all expense items for which revenue offsets have been authorized. A separate balancing account must be maintained for each offset expense item. All multi-district water utilities shall maintain separate balancing accounts for each district. Balancing accounts must be kept separate from the general ledger accounts of the utility.

### 3. START DATE

All water utility's shall begin maintaining balancing accounts by the procedure described herein as of July 1, 1983.

### 4. ADOPTED QUANTITIES

Test year customer, expense, investment and revenue projections found reasonable in the latest general rate case decision will be used for the procedures herein.

Balancing accounts maintained beyond the latest test year will use the latest adopted quantities. Those cases, where adopted quantities do not exist or where the latest decision is older than 5 years, will be handled on a case by case basis, by the Commission staff.

### 5. EXPENSE COMPONENT

- a. Water Production Expenses - The expense component of the balancing account is given by:

Expense Component =	Recorded Consumption	x	Incremental Expense Rate Change
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- b. Non-Water Production Expenses - The expense component of the balancing account is given by:

$$\text{Expense Component} = \frac{\text{Adopted Expense}}{\text{Percent Expense Change}} \times$$

All expense components are to be booked monthly. In the case of non-water production expenses it will be necessary to divide the annualized expense change by twelve (12).

## 6. REVENUE COMPONENT

- a. Water Production Expenses - The revenue component of the balancing account is given by:

$$\text{Revenue Component} = \frac{\text{Recorded Water Sales}}{\text{Incremental Revenue Rate Change}} \times$$

- b. Non-Water Production Expenses - The revenue component of the balancing account is given by:

$$\text{Revenue Component} = \frac{\text{Recorded Service Charges}}{\text{Incremental Revenue Rate Change}} \times$$

## Rate Design

The guidelines below are to be used for calculating the monthly revenue component of the balancing account. However, there may be times when a utility, seeking offset relief, combines a small non-water expense change with a much larger water production expense change. In some instances a uniform increase for all service charges would not be possible. Therefore, water utilities have the option of requesting that non-water production expense changes be offset through either the service or quantity charges.

1. Water Production Expenses (Metered) - Compute an incremental change in cents per Ccf. Revenue component is based on recorded metered sales.
2. Water Production Expenses (Flat Rate) - Compute an incremental change for the flat rate tariffs similar to the computation of a surcharge.
3. Non-Water Production Expenses - Compute an incremental change in the service charge (or flat rate tariffs) similar to the computation of a surcharge.

## 7. BALANCING ACCOUNT BOOKING PROCEDURE

Entries shall be made to each individual balancing account at the end of each month as follows:

### Water Production Expenses

- a. A debit entry equal to, if positive (credit entry, if negative) the expense component as calculated in Section (5).
- b. A credit entry equal to, if positive (debit entry, if negative) the revenue component as calculated in Section (6).
- c. The monthly balancing account accrual is the difference between (7a) and (7b).

## 8. WEIGHTING FACTORS

Expense and revenue rate changes occur at any time of the month. Bills for service are rendered to customers in monthly or bimonthly billing cycles. In each billing cycle a utility bills only a portion of its customers. To properly account for the impact of an expense or revenue rate change in a given month, it is necessary to prorate these changes.

Expenses and flat rate (or service charge) revenues are prorated on the basis of the ratio of the number of days the change is effective to the total number of days in the month. Metered revenues are prorated on the basis of the ratio of billed usage for the number of days in effect to the billed usage assuming the effective rate for the total days in the month.

Formulas for calculating the expense and revenue weighting factors for monthly and bimonthly billing cycles are given below. These formulas are appropriate for the larger utilities who read meters all through the month. For small water utilities who read all their meters within a few days, a straight proportion of their billing period should be used for weighting.

### a. Weighting Factors-Monthly Billing Cycle

#### Expense Weighting Factor

$$EW = (N_1 - E_e + 1) / N_1$$

#### Flat Rate (Service Charge) Revenue Weighting Factor

$$FRW = (N_1 - E_r + 1) / N_1$$

**Metered Revenue Weighting Factor**

$$MRW_1 = (N_1 - E_r + 1)^2 / 2N_1$$

$$MRW_2 = 1 - (E_r - 1)^2 / 2N_1N_2$$

**B. Weighting Factors-Bimonthly Billing Cycle****Expense Weighting Factor**

$$EW = (N_1 - E_e + 1) / N_1$$

**Flat Rate (Service Charge) Revenue Weighting Factor**

$$RW = (N_1 - E_r + 1) / N_1$$

**Metered Revenue Weighting Factor**

$$MRW_1 = (N_1 - E_r + 1)^2 / 2N_1(N_1 + N_2)$$

$$MRW_2 = (2N_1 + N_2 - 2E_r + 2) / 2(N_1 + N_2)$$

$$MRW_3 = 1 - (E_r - 1)^2 / 2(N_1 + N_2)N_3$$

**Where:****E<sub>e</sub>** = Effective date of expense rate change**E<sub>r</sub>** = Effective date of revenue rate change**EW** = Expense weighting factor**FRW** = Flat rate revenue weighting factor**MRW<sub>1,2,3</sub>** = Metered revenue weighting factor for the first, second and third months.**N<sub>1,2,3</sub>** = Number of days in the first, second and third months**9. BALANCING ACCOUNT DISPOSITION**

In general balances in the balancing accounts will be disposed of in offset rate proceedings. Although not anticipated, balances exceeding 2% of the gross annual revenues adopted for the most recent test year, or in the most recent annual report on file at the time a general rate order is being drafted will be disposed of in that order.

At the time offset rates are granted, the total of the accumulated accruals in all balancing accounts must be amortized if that total exceeds 2% of the gross annual revenues adopted for the most recent test year, or in the most recent annual report on file. The balances to be used are the most recent available to the utility at the time it files for offset rates. Amortization of the balancing accounts will not be required, if at the time general or offset rates are granted a utility can demonstrate that the total of the accumulated accruals are likely to decline below the 2% level within the next 3 months.

Balances whose absolute values are less than 5% of the gross annual revenues adopted for the most recent test year, or in the most recent annual report on file are to be amortized over one year. Balances exceeding 5% will be amortized over periods greater than 1 year.

#### 10. OTHER CONDITIONS

- a. Water utilities should be prepared when requested by the Commission or its staff to justify any differences between the recorded production factors and those adopted in the most recent decision. Failure to do so may result in an adjustment to the balancing account to reflect adopted production factors.
- b. Water utilities must submit as part of their offset filing for a district, information on all balancing accounts for that district. Failure to do so may result in a rejection of the filing.

**ATTACHMENT 1**

**PURCHASED POWER BALANCING ACCOUNT  
(1981)**

(1) Month	(2) Rec. Sales (KCCf)	(3) Recorded Consumption (Kwh)	(4) Incr. Exp. Rate Charge (\$/Kwh)	(5) Incr. Rev. Rate Charge (\$/Ccf)	(6)=(2)x(5) Revenue (\$)	(7)=(3)x(4) Expense (\$)	(8)=(6)-(7) Over or (Under) Collectio (\$)
Jan.	240.2	168,600	-	-	-	-	-
Feb.	237.3	165,600	-	-	-	-	-
Mar.	234.2	162,400	0.015	-	-	2,400	(2,400)
Apr.	247.2	178,400	0.015	0.0111	2,700	2,700	-
May	328.6	231,000	0.015	0.0111	3,600	3,500	100
Jun.	328.4	235,000	0.025	0.0111	3,600	5,900	(2,300)
Jul.	349.3	242,200	0.025	0.0111	3,900	6,100	(2,200)
Aug.	342.8	247,000	0.025	0.0193	6,600	6,200	400
Sep.	333.2	231,100	0.030	0.0193	6,400	5,800	600
Oct.	298.0	206,600	0.030	0.0193	5,800	6,200	(400)
Nov.	247.3	180,000	0.030	0.0193	4,800	5,400	(600)
Dec.	207.6	150,000	0.030	0.0193	4,000	4,500	(500)

Adopted Quantities (1981)

1. Purchased Power = \$ 148,800
2. Water Sales = 3,394,100 Ccf
3. Power Consumption = 2,353,600 Kwh

Offset Expense and Revenue Calculations

1. Expense Increase Effective March 1  
 $\$0.015/\text{Kwh} \times 2,353,600 \text{ Kwh} = \$35,300$   
 Offset Revenue Increase Effective April 1 (Inc. Bal. Acct. Amort.)  
 $(\$35,300 + \$2,400)/3,394,100 \text{ Ccf} = \$0.0111/\text{Ccf}$
2. Expense Increase Effective June 1  
 $\$0.01/\text{Kwh} \times 2,353,600 \text{ Kwh} = \$23,500$   
 Offset Revenue Increase Effective August 1 (Inc. Bal. Acct. Amort.)  
 $(\$23,500 + \$6,800 - \$2,400)/3,394,100 \text{ Ccf} = \$0.0082$
3. Expense Increase Effective October 1  
 $\$0.005/\text{Kwh} \times 2,353,600 \text{ Kwh} = \$11,800$   
 No Additional Revenue Offset as of December 31.

**ATTACHMENT 2**

**PAYROLL BALANCING ACCOUNT  
(1981)**

(1) Month	(2) Recorded Service Charges (\$)	(3) Adopted Expense (\$)	(4) Incr. Exp. Rate Change (%)	(5) Incr. Rev. Rate Change (%)	(6)-(2)x(5) Revenue (\$)	(7)-(3)x(4) Expense (\$)	(8)-(6) Over (Und) Collec (\$)
Jan.	23,150	4,370	10	-	-	437	(437)
Feb.	23,200	4,370	10	-	-	437	(437)
Mar.	23,250	4,370	10	-	-	437	(437)
Apr.	23,250	4,370	10	2.44	567	437	130
May	23,340	4,370	10	2.44	569	437	132
Jun	23,370	4,370	10	2.44	570	437	133
Jul.	23,370	4,370	10	2.44	570	437	133
Aug.	23,370	4,370	10	2.44	570	437	133
Sep.	23,390	4,370	10	2.44	571	437	134
Oct.	23,400	4,370	10	2.44	571	437	134
Nov.	23,450	4,370	10	2.44	572	437	135
Dec.	23,450	4,370	10	2.44	572	437	135

Adopted Quantities (1981)

1. Payroll = \$52,440
2. Service Charge Revenue = \$268,500

Offset Expense and Revenue Calculations

1. Expense Increase Effective January 1  
 $10\% \times \$52,440 = \$5,244$   
 Monthly Expense Increase  
 $\$5,244/12 = \$437$
2. Offset Revenue Increase Effective April 1 (Inc. Bal. Acct. Amort.)  
 $(\$5,244 + \$1,311)/\$268,500 = 2.44\%$

**ATTACHMENT 3**

**PROPERTY TAX BALANCING ACCOUNT  
(1981)**

(1) Month	(2) Recorded Service Charges (\$)	(3) Adopted Tax Base (\$)	(4) Incr. Tax Rate Change (%)	(5) Incr. Rev. Rate Change (%)	(6)-(2)x(5) Revenue (\$)	(7)-(3)x(4) Expense (\$)	(8)-(6)- Over (Under) Collect (\$)
Jan.	23,150	36,000	.2	-	-	600	(600)
Feb.	23,200	36,000	.2	-	-	600	(600)
Mar.	23,250	36,000	.2	-	-	600	(600)
Apr.	23,250	36,000	.2	3.35	814	600	214
May	23,340	36,000	.2	3.35	817	600	217
Jun	23,370	36,000	.2	3.35	818	600	218
Jul.	23,370	36,000	.2	3.35	818	600	218
Aug.	23,370	36,000	.2	3.35	818	600	218
Sep.	23,390	36,000	.2	3.35	819	600	219
Oct.	23,400	36,000	.2	3.35	819	600	219
Nov.	23,450	36,000	.2	3.35	821	600	221
Dec.	23,450	36,000	.2	3.35	821	600	221

Adopted Quantities (1981)

1. Property Tax = \$ 36,000
2. Property Tax Base = \$3,600,000
3. Property Tax Rate = 1%
4. Service Charge Revenue = \$ 268,500

Offset Expense and Revenue Calculations

Expense Increase Effective January 1

$$.2\% \times \$3,600,000 = \$7,200$$

Monthly Expense Increase

$$\$7,200/12 = \$600$$

Offset Revenue Increase Effective April 1 (Inc. Bel. Acct. Amort.)

$$(\$7,200 + \$1,800)/\$268,500 = 3.35\%$$



**Public Utilities Commission**  
STATE OF CALIFORNIA

FILE NO.

September 13, 1983

TO: CLASSES A, B AND C WATER UTILITIES

Re: Balancing Accounts

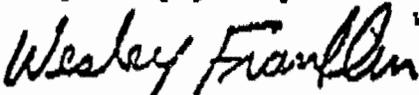
Recent offset filings have indicated a need to address the rate design associated with amortizing balancing account accruals. The new balancing account procedures approved by the Commission on May 18, 1983, are silent on this matter. At the joint technical workshop (staff and water industry) conducted in June, it was suggested that balancing account accruals be recovered entirely from the service charge.

We have given the matter further thought and are now recommending that recovery of the balancing account accruals related to water production expenses, i.e., purchased power and purchased water should be recovered through the quantity charges. Accruals related to non-water production expenses, such as postage and ad valorem taxes should be recovered through the service charge.

Attached is an insert on the recommended rate design for amortizing balancing account accruals. Please include this in your balancing account procedures under Section 6, Revenue Component.

If you have any questions, please do not hesitate to call me at (415) 557-1863.

Very truly yours,



WESLEY FRANKLIN, Chief  
Hydraulic Branch

Attachment

**Insert to Section 6, Revenue Component**

**4. Amortization of Over/Under Collection in Balancing Account (Metered)**

- a. For the amount accrued from water production expenses, compute an incremental change in cents per Ccf.
- b. For the amount accrued from non-water production expenses, compute an incremental change in the service charge similar to the computation of a surcharge.

**5. Amortization of Over/Under Collection in Balancing Account (Flat Rate)**

- a. Compute an incremental change for the flat rate tariffs similar to the computation of a surcharge.