



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application Of CALIFORNIA-AMERICAN WATER COMPANY (U-210-W), CALIFORNIA WATER SERVICE COMPANY (U-60-W), GOLDEN STATE WATER COMPANY (U-133-W), PARK WATER COMPANY (U-314-W) AND APPLE VALLEY RANCHOS WATER COMPANY (U-346-W) to Modify D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, and D.10-06-038 regarding the Amortization of WRAM-Related Accounts.

Application 10-09-___

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TO MODIFY D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, AND D.10-06-038

REGARDING THE AMORTIZATION OF WRAM-RELATED ACCOUNTS

DAVID P. STEPHENSON

4701 Beloit Drive
Sacramento, CA 95838
Phone: (916)-568-4222
Fax: (916) 568-4260
dstephen@amwater.com

**Assistant Treasurer
California-American Water Company**

THOMAS F. SMEGAL

1720 North First Street
San Jose, California 95112
Phone: (408) 367-8219
Fax: (408) 367-8436
tsmegal@calwater.com

**Vice President, Regulatory Matters
California Water Service Company**

KEITH SWITZER

Golden State Water Company
630 East Foothill Boulevard
San Dimas, California 91773
Phone: (909) 394-3600, Extension 759
Fax: (909) 394-7427
KSwitzer@gswater.com

**Vice President of Regulatory Affairs
Golden State Water Company**

EDWARD N. JACKSON

Park Water Company
9750 Washburn Road
Downey, CA 90241
Phone: (562) 923-0711, ext. 1212
Fax: (562) 861-5902
ed@parkwater.com

**Director of Revenue Requirements
Park Water Company**

LEIGH K. JORDAN

Apple Valley Ranchos Water Company
c/o Park Water Company
9750 Washburn Road
Downey, CA 90241
Phone: (562) 923-0711, ext.1204
Fax: (562) 861-5902
leigh@parkwater.com

**Executive Vice President
Apple Valley Ranchos Water Company**

Dated: September 13, 2010

SUMMARY OF APPLICATION REQUESTS

The following proposals relate to two regulatory accounting mechanisms, the full Water Revenue Adjustment Mechanism (“WRAM”) and the Modified Cost Balancing Accounts (“MCBA”), that the Commission adopted for Applicants, as part of settlements that included conservation-oriented rates, in D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, and D.10-06-038 (the “WRAM decisions”).¹

These proposals are intended to ensure consistency with a financial accounting standard (EITF Issue No. 92-7)² that only allows a regulated utility to “recognize” revenues in a fiscal year (e.g. 2009) if the regulatory process enables the utility to actually recover those revenues within 24 months of the end of that fiscal year (e.g. December 31, 2011).

The proposals to modify the WRAM decisions were developed in consultation with the Division of Ratepayer Advocates (“DRA”). It is therefore Applicants’ understanding that DRA does not oppose those proposals. Applicants also request authority to modify the current amortization of 2009 WRAM/MCBA balances to ensure recovery of the authorized WRAM revenue by December 31, 2011.

PROPOSED MODIFICATIONS TO THE WRAM DECISIONS

ISSUE 1 – AMORTIZATION PERIOD: Over what period of time should WRAM/MCBA balances³ be amortized?

- (A) Currently – The WRAM decisions do not specify. In the absence of specific rules, the Commission’s Water Division staff have asserted that the following rules apply:
- i. All surcredit balances – amortize to return money to ratepayers “as soon as reasonably possible.”
 - ii. Surcharge balances less than 2% – may not amortize (unless in GRC).
 - iii. Surcharge balances between 2% and 5% – amortize over 12 months.
 - iv. Surcharge balances between 5% and 10% – amortize over 24 months.
 - v. Surcharge balances above 10% – amortize over 36 months.⁴
- (B) *Proposal – Amortize WRAM/MCBA balances as follows:*
- i. *All surcredit balances – no change.*

¹ In the WRAM decisions, settlements adopting WRAM/MCBA mechanisms and conservation rates were approved for each Applicant. Note, however, that an MCBA was not adopted for Cal Am’s Coronado and Village Districts.

² See discussion of the “Emerging Issues Task Force” and Issue No. 92-7 in Section II.C.

³ For the purposes of this Application, a “WRAM/MCBA balance” is the balance after the WRAM of a ratemaking area, and the MCBA of the same ratemaking area, are “combined” or “netted out” against each other, leaving either a positive or negative dollar amount to be recovered from or given back to the ratepayers in that ratemaking area.

⁴ See, e.g., Letter from James Boothe, Division of Water and Audits, to Darin Duncan, California Water Service Company, dated June 9, 2010 (regarding AL 1984). See also Standard Practice (“SP”) U-27-W at 13-14 (para. 56); D.03-06-072, Appendix A at 3; General Order (“GO”) 96-B Order, Water Industry Rule 8.5.

- ii. *Surcharge balances less than 2% – the utility will have the option to amortize over 12 months (see Issue 5(B)(iii)).*
- iii. *Surcharge balances between 2% and 5 % – no change.*
- iv. *Surcharge balances above 5% – the utility will have the option to amortize over 18 months in order to meet the requirements of financial accounting standard EITF Issue No. 92-7.*

ISSUE 2 – DEADLINE FOR SUBMITTING REPORT: When should Applicant submit its annual WRAM/MCBA report?

- (A) Currently – Applicants submit an annual report on the status of their combined net WRAM/MCBA balances by March 31st, and include data up to the previous December 31st.
- (B) *Proposal – Submit annual report by November 30th, and include data up to the previous September 30th.*

ISSUE 3 – DEADLINE FOR REQUESTING AMORTIZATION: When should a utility ask to amortize a WRAM/MCBA balance?

- A) Currently – The Applicants can only request to amortize WRAM/MCBA balances on an annual basis. While the Cal Water Settlement lacks a deadline, the Golden State and Park Water Settlements require the companies to request amortization within 30 days of filing their annual WRAM/MCBA reports.⁵
- B) *Proposal – Submit request for amortization on or before March 31st.*⁶

ISSUE 4 – PROCESS FOR REQUESTING AMORTIZATION: How should a utility ask to amortize a WRAM/MCBA balance?

- A) Currently – The WRAM decisions do not specify the appropriate advice letter tier for requesting amortization, but Water Industry Rule 7.3.1(1) of General Order 96-B allows Tier 1 advice letter submissions to amortize balancing accounts in general.
- B) *Proposal – Clarify that, like other balancing accounts, the amortization of WRAM/MCBA balancing accounts can be requested via a Tier 1 advice letter.*

ISSUE 5 – THE “TRIGGER” FOR AMORTIZATION: Which WRAM/MCBA balances should be amortized?

- A) Currently – Applicants may not amortize a WRAM/MCBA account until it exceeds a certain “trigger.”
 - i. Under the WRAM settlements, the trigger is a percentage of a district’s (or ratemaking unit’s) “total recorded revenue requirement for the prior calendar

⁵ Applicants’ Settlement Agreements (Recovery and Refund Section).

⁶ Under Applicants’ proposals, the October 31st WRAM/MCBA reports will include only data up to the previous September 30th, but the proposed amortization advice letter should include recorded balances through December 31st. Applicants would then have until the following February 28th to file the proposed amortization advice letter.

year.” Pursuant to D.03-06-072, the trigger for other balancing accounts is a percentage of a district’s “last authorized revenue requirement.”⁷

- ii. The trigger for Cal Am, Cal Water, and Golden State is 2.5%, while the trigger for Park Water is 2%. For balancing accounts generally, the trigger is 2%.⁸
- iii. For annual WRAM/MCBA balances less than the trigger amount – carry over to next annual WRAM/MCBA filing until trigger is met or amortize in the next GRC.

B) Proposal – Allow amortization of WRAM/MCBA accounts regardless of percentage, as follows:

- i. To be consistent with the way triggers are calculated for other balancing accounts, calculate percentages for WRAM/MCBA accounts based on the district’s “last authorized revenue requirement.”*
- ii. To establish WRAM triggers that are consistent across all Applicants (as well as with balancing accounts subject to SP U-27 and Water Industry Rule 8.5), set the trigger at 2%.*
- iii. For balances under 2%, however, utility may choose to amortize, or may carry the balance over to the next annual WRAM/MCBA filing until trigger is met or amortize in the next GRC.*
- iv. To be consistent with other balancing accounts, for balances greater than 2%, utility must amortize.*

Note: As reflected in Issue 3, a utility can only amortize WRAM/MCBA accounts once a year. Under SP U-27 and Water Industry Rule 8.5, the utility requests amortization as soon as the balance reaches the trigger (or if it does not trigger, in the next GRC).⁹

ISSUE 6 – APPLYING SURCHARGE/SURCREDIT: How should the surcharge or surcredit be applied to customers’ bills?

- A) Currently – The WRAM decisions require that the water utilities apply over- or under-collections to customers’ bills as volumetric surcharges or surcredits.
- B) *Proposal – Amortize an under-collection using a surcharge on the quantity charge. Amortize an over-collection through a surcredit on the service charge.*

ISSUE 7 – ACCOUNTING FOR AMORTIZED AMOUNTS (“FIRST IN, FIRST OUT”):

- A) Current – The WRAM decisions do not specify how to account for the amortized amounts as the utility either receives revenues from surcharges, or returns money through surcredits.
- B) *Proposal – Within a ratemaking unit, as surcharge revenues come in (or as surcredits are applied), the utility will pay down (or apply the surcredits to) the oldest net WRAM/MCBA balances first.*

⁷ D.03-06-072, Appendix A at 3.

⁸ SP U-27 at 9 (para. 39); GO 96-B, Water Industry Rule 8.5.

⁹ SP U-27 at 9 (para. 39).

ISSUE 8 – “UNDER-AMORTIZED” AND “OVER-AMORTIZED” AMOUNTS: When a surcharge/surcredit is not collecting/recovering the intended dollar amounts, how should the remainder balance be handled? ¹⁰

- A) Current – The WRAM decisions do not specify how to handle under- or over-amortized amounts. For other balancing accounts, the general practice appears to be to continue the surcharge/surcredit until the end of the amortization period, and retain the remaining balance in the balancing account that will in turn be amortized once that amount reaches the trigger.
- B) *Proposal – In each annual WRAM/MCBA filing, include any remaining amounts that have been under- or over- amortized thus far. For example, if an 18-month surcharge is set up in Year 2 to recover the WRAM revenues for Year 1, and there is an under-recovery of the Year 1 revenues during Year 2, then the Year 3 annual WRAM/MCBA filing for that ratemaking unit would include the “under-amortized” amount that was supposed to have been collected in Year 2, but that was not collected. (The 18-month surcharge authorized in Year 2 would continue for its full amortization period.)*

ISSUE 9 – ADDITIONAL AMORTIZATION FOR OUTSTANDING WRAM REVENUES

- A) Current – Applicants have already begun to amortize the WRAM/MCBA balances for 2009 (which in some cases may include 2008 balances) by applying surcharges to customers’ bills. In several cases, the time periods for amortization and the surcharges authorized by Water Division staff will not allow Applicants to fully recover all authorized WRAM revenues for 2009 before December 31, 2011, which is 24 months after the end of the 2009 fiscal period.
- B) *Proposal – (i) Allow Applicants to implement an additional surcharge in those ratemaking units where any 2009 (and in some cases, 2008) WRAM/MCBA revenues will still be outstanding as of December 31, 2011, including units in which there is not a surcharge yet because the trigger was not previously met.¹¹ The additional surcharge would be calculated to recover the amounts that will be outstanding as of December 31, 2011, and may also include under-amortized amounts associated with the 2009 (and 2008) WRAM/MCBA balances.*
 - (ii) In units with the additional surcharge, the original surcharge to amortize the 2009 (and 2008) WRAM/MCBA balance (if there is one) would continue as authorized, and then end by December 31, 2011. The additional surcharge could begin soon as soon as possible after the Commission’s decision on this Application, and would end by December 31, 2011.*
 - (iii) Allow Applicants to request the additional surcharge via a Tier 1 advice letter, and authorize Water Division staff to approve such advice letters as long as they are consistent with the decision resolving this Application, or SP U-27.*

¹⁰ Over- or under-amortization will likely result from the discrepancy between (1) the amount of consumption, or number of services, assumed when the surcharge/surcredit was calculated, and (2) the actual consumption, or actual number of services, while the surcharge/surcredit was in place.

¹¹ This will be referred to as an “additional surcharge” even though some ratemaking units do not yet have surcharge for 2008-2009 balances because the trigger was not met.

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**TO MODIFY D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023,
D.09-05-005, D.09-07-021, AND D.10-06-038**

REGARDING THE AMORTIZATION OF WRAM-RELATED ACCOUNTS

Pursuant to Rule 2.1 of the Commission’s Rules of Practice and Procedure (“Rules”), California-American Water Company (U-210-W) (“Cal Am”), California Water Service Company (U-60-W) (“Cal Water”), Golden State Water Company (U-133-W) (“Golden State”), Park Water Company (U-314-W) (“Park”), and Apple Valley Ranchos Water Company (U-346-W) (“Apple Valley”) (together, “Applicants”) hereby request modification of Decisions (“D.”) 08-02-036, 08-06-002, 08-08-030, 08-09-026, 08-11-023, 09-05-005, 09-07-021, and 10-06-038 (“the WRAM decisions”).¹²

¹² D.08-06-002, D.08-11-023, D.09-07-021, and D.10-06-038 relate to Cal Am, D.08-02-036 relates to Cal Water and Park Water, D.08-08-030 and D.09-05-005 relate to Golden State, and D.08-09-026 relates to Apple Valley.

In particular, Applicants request that the Commission modify some of the informal processes for amortizing the conservation-related balancing accounts that decouple revenues from water sales – the Water Revenue Adjustment Mechanisms (“WRAMs”) and the Modified Cost Balancing Accounts (“MCBAs”).¹³ For the reasons discussed herein, it is critical that the Commission consider the issues raised in this Application as soon as possible. Thus, Applicants respectfully request expedited consideration of this Application, and urge the Commission to adopt a final decision on or before December 16, 2010.¹⁴

Applicants note that this Application for Modification is being filed, instead of a Petition for Modification, at the suggestion of Assistant Administrative Law Judge Michelle Cooke.¹⁵ Company-specific requirements in compliance with Rule 2.1(a)-(b) and Rule 2.2 are contained in Attachment 1. Verification consistent with Rule 1.11 appears after the signature page.

I. INTRODUCTION

Through discussions with the Division of Ratepayer Advocates (“DRA”), Applicants have developed proposals regarding Applicants’ WRAM and MCBA accounts

¹³ Each settlement has a section entitled “Recovery and Refund of Balancing Accounts” containing provisions that address details of how the WRAM and MCBA accounts are handled, and will hereinafter be cited as “Applicants’ Settlement Agreements (Recovery and Refund Section).” (The exceptions are (1) there is no MCBA in the settlements for Cal Am’s Coronado and Village Districts adopted in D.08-11-023; (2) the settlement in D.10-06-038 continues the WRAM/MCBA mechanisms for Cal Am’s Larkfield and Los Angeles Districts that the Commission had previously adopted for those districts, without repeating the relevant provisions; and (3) Section 11.01.05 of the settlement in D.08-09-026 for Apple Valley stated that the WRAM/MCBA would be consistent with the principles of the WRAM/MCBA adopted for Park in D.08-02-036 without specifying detail.)

¹⁴ According to the Commission’s website, the Commission has a regularly scheduled Business Meeting on December 16, 2010.

¹⁵ Telephone discussion between Michelle Cooke, Assistant Administrative Law Judge, CPUC and Tom Smegal, Vice President, Regulatory Affairs, California Water Service Company on August 24, 2010. It is Applicants’ understanding that the Division of Administrative Law Judges prefers that Applicants submit an “application for modification” in this instance, instead of a “petition for modification,” because an application will facilitate the use of a new proceeding in which to address these issues, rather than continuing to address the issues in I.07-01-022 *et seq.*, A-06-01-005, A.07-01-036 *et seq.*, A.08-01-023 *et seq.*, and A.09-01-013. Applicants therefore also file this document consistent with Rule 16.4(d).

to ensure that the balances in these accounts are reported and amortized in a manner that meets the needs of ratepayers, the water utilities, and the Commission. Some of the proposals specifically modify the WRAM decisions, while others would establish additional requirements that were not explicitly addressed in the decisions. The most significant change requested in this Application relates to the amortization periods of the over- and under-collections reflected in the net WRAM/MCBA accounts.

As a general matter, water consumption since the WRAM/MCBA mechanism was adopted has been significantly lower than “authorized” by the Commission, resulting in high net WRAM/MCBA under-collections. Thus, lower-than-anticipated consumption in one year, even when offset by decreased water production costs, will in the immediate future require that surcharges be placed on customer bills in order to accomplish the “revenue-neutral” goal of the WRAM/MCBA portion of the settlements.¹⁶

Unfortunately, it has recently become clear that a financial accounting standard (generally known as Emerging Issues Task Force Issue No. 92-7 (“EITF Issue No. 92-7”), now codified as Accounting Standards Codification (“ASC”) 980-605-25) of the Financial Accounting Standards Board (“FASB”) may preclude Applicants (and any other Class A water utility whose ratemaking unit has a similar WRAM/MCBA) from “recognizing,” for the purposes of Generally Accepted Accounting Principles (“GAAP”) accounting, the full amount of revenues that a WRAM is supposed to ensure within a given period.¹⁷ In order to maintain “revenue neutrality” as customers respond to aggressive conservation rates and programs, a “full WRAM” (offset by an MCBA) was crafted for most of Applicants’ ratemaking units to ensure that the utility would continue to recover the revenue amounts “authorized” for that unit by the Commission (albeit just

¹⁶ See, e.g., D.08-02-036 at 7 (note 7); D.08-08-030 at 15 and D.09-05-005 at 11.

¹⁷ See discussion at Section II.A - C, *infra*.

for those revenues related to the water rate structures that were changed to encourage conservation).

Currently, the Commission's Division of Water & Audits ("DWA" or "Water Division staff") would apply periods of up to 24 and 36 months to amortize high WRAM/MCBA balances. Financial accounting standard EITF Issue No. 92-7, however, may preclude the water utilities from booking net WRAM/MBCA balances as current revenue in a fiscal period if the utility does not actually recover those revenues from ratepayers within 24 months after the end of that fiscal period.¹⁸ This outcome would undermine one of the very purposes for the Commission's adoption of the WRAM/MCBA mechanisms, which was to remove a company's disincentive for encouraging water conservation.¹⁹ In addition, this would negatively impact the financial strength of the companies, ultimately resulting in higher financing costs that negatively impact ratepayers. Applicants therefore seek Commission approval to have the option of amortizing a net WRAM/MCBA balance over a period of 18 months or less to ensure recovery within the 24-month period.²⁰

Adopting this proposal and the other proposals herein would restore the balance developed in the conservation-oriented rate design settlements adopted for Applicants. Rejecting this Application, on the other hand, may require Applicants to take the drastic step of revisiting the financial reports that have been issued since the inception of the WRAMs.²¹ Because of the significant impact this proceeding will have on the financial

¹⁸ See discussion at Section II.C, *infra*.

¹⁹ See, e.g., D.08-02-036 at 27 and D.08-08-030 at 16.

²⁰ As discussed in greater detail below, authorizing amortization over an 18-month period or less, rather than a 24-month period or less, offers greater assurance that the full amount of appropriate revenue is actually recovered within 24 months.

²¹ Cal Water implemented its WRAM/MCBA mechanisms on July 1, 2008. Golden State implemented its WRAM/MCBA mechanisms in its Region II and Region III ratemaking area on November 25, 2008, and in its Region I (except Clearlake) ratemaking areas on September 1, 2009. Park Water implemented its

health of Applicants, Applicants have respectfully sought expedited consideration of these issues and urged adoption of a final Commission decision on or before December 16, 2010.

II. SHORTENING THE AMORTIZATION PERIODS FOR WRAM/MCBA BALANCES

ISSUE 1 – AMORTIZATION PERIOD: Over what period of time should WRAM/MCBA balances be amortized?

- A) Currently – The WRAM decisions do not specify. In the absence of specific rules, the Commission’s Water Division staff have asserted that the following rules apply:
- i. All surcredit balances – amortize to return money to ratepayers “as soon as reasonably possible.”
 - ii. Surcharge balances less than 2% – may not amortize (unless in GRC).
 - iii. Surcharge balances between 2% and 5% – amortize over 12 months.
 - iv. Surcharge balances between 5% and 10% – amortize over 24 months.
 - v. Surcharge balances above 10% – amortize over 36 months.²²
- B) *Proposal – Amortize WRAM/MCBA balances as follows:*
- i. *All surcredit balances – no change.*
 - ii. *Surcharge balances less than 2% – the utility will have the option to amortize over 12 months (see Issue 5(B)(iii)).*
 - iii. *Surcharge balances between 2% and 5 % – no change.*
 - iv. *Surcharge balances above 5% – the utility will have the option to amortize over 18 months in order to meet the requirements of financial accounting standard EITF Issue No. 92-7.*

In furtherance of the conservation goals of the Commission’s Water Action Plan, the Commission addressed several significant issues in the WRAM decisions, including the most appropriate price signals tailored to each district, the theory and practice of decoupling revenue from sales for Class A water utilities, and, for some companies, conservation and low-income rate assistance programs. What the Commission did not

WRAM/MCBA mechanisms on September 15, 2008. Apple Valley implemented its WRAM/MCBA mechanisms on January 1, 2009.

²² See, e.g., Letter from James Boothe, Division of Water and Audits, to Darin Duncan, California Water Service Company, dated June 9, 2010. See also Standard Practice (“SP”) U-27-W at 13-14 (para. 56); D.03-06-072, Appendix A at 3; General Order (“GO”) 96-B Order, Water Industry Rule 8.5.

specifically consider, however, is how to amortize the net balances of the WRAM/MCBA regulatory mechanism in a manner that is consistent with the underlying purposes of the WRAMs/MCBAs.

Since discovering from accountants that long amortization periods adopted for the recovery of WRAM/MCBA balances could threaten Applicants' ability to account for those revenues in the current financial period,²³ Applicants have worked with accountants, and separately, with DRA staff, to explore possible regulatory solutions. Applicants believe that the modified time periods for amortization listed above reflect the Commission's intent in adopting the WRAMs, while still preventing rate shock to customers. It is Applicants' understanding that DRA does not oppose these modifications.

In addition, it is Applicants' understanding that, as long as the Commission is considering this Application in a timely manner, the need for restatement pending the Commission's determinations would be unlikely. For this reason, Applicants have requested a Commission decision on or before December 16, 2010.

A. Regulatory Rules vs. GAAP Accounting

The amortization issue raised in this Application stems from certain interactions and differences between the Commission's requirements²⁴ and GAAP accounting rules, the significance of which have arisen as a result of implementation of the new WRAM/MCBA mechanisms. The result is a troubling uncertainty that could have significant financial implications for Applicants, as well as any other regulated water company with the same kind of "full" WRAM/MCBA mechanisms, unless the

²³ See discussion of EITF Issue No. 92-7 in Section II.C, *infra*.

²⁴ The Commission requirements at issue include the WRAM decisions, Water Industry Rule 8.5, SP U-27, and D.03-06-072.

Commission approves some modifications to how WRAM/MCBA balances are amortized.

In terms of how these balancing accounts operate from a regulatory accounting perspective, a WRAM and an MCBA (which includes components for water production costs – purchased power, purchased water, pump taxes, and other production costs specifically allowed by the Commission) are maintained for each of Applicants' ratemaking units,²⁵ and may reflect either positive or negative balances.²⁶ On a monthly basis, each WRAM reflects the difference between the "adopted" WRAM revenue (the amount authorized by the Commission) and the "recorded" or "billed" WRAM revenue (the amount actually billed to customers).²⁷ Thus, when consumption is lower than expected, the WRAM reflects the under-collection of authorized revenues – the amounts that have yet to be billed to customers that must later be collected from them through a surcharge. When consumption is higher than expected, the WRAM reflects the "over-collected" revenues – the excess revenue that must later be refunded to ratepayers through a surcredit.

²⁵ Some districts may have multiple ratemaking areas with their own WRAM/MCBAs. For example, Cal Water's Redwood Valley District has three different ratemaking areas, with a separate WRAM and separate MCBAs for each.

²⁶ For example, in a year that is wetter than expected, customers may end up using less water than the parties and the Commission had anticipated in the previous rate case for the district (or ratemaking area). Or customers may have conserved water in response to conservation programs or conservation price signals, as intended by the conservation rate designs. In either case, the revenue that the Commission assumed the company would collect – the "adopted revenue" – will be higher than the amounts actually collected through customer bills – the company's "actual revenue." The balance in the WRAM account will thus be negative, reflecting an amount (after being offset by the MCBA account) that must still be collected from ratepayers. On the other hand, customers end up using more water than anticipated so that actual revenue is higher than adopted revenue, and the balance in the WRAM account (offset by the MCBA account) may reflect an amount that must be credited back to ratepayers.

²⁷ While the WRAM stands for "water revenue adjustment mechanism," it was developed to capture only those revenues impacted by conservation. Thus, each ratemaking area has "WRAM revenue" that is tracked in the new regulatory mechanism, and other "non-WRAM revenue" whose regulatory treatment is unchanged. For most areas, the "WRAM revenue" refers to revenue from the quantity charges of residential, commercial, industrial, and institutional customers, while "non-WRAM" revenue refers to all other revenue sources, including flat-rated monthly service charges. See, e.g., Preliminary Statement M, Section 3 (for the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA)) in Cal Water's tariff (Sheet No. 7345-W). http://www.calwater.com/rates/rules/preliminary_statement-m.pdf (accessed 7/23/10).

In a corresponding manner, an MCBA reflects the difference between the “adopted” costs for water production (purchased power, purchased water, and pump taxes), and the “recorded” costs (the costs actually incurred for water production).²⁸ The amounts in the WRAM and MCBA for a ratemaking unit then offset one another, and the net amount is provided in the WRAM/MCBA report that Applicants submit to the Commission on an annual basis.

In contrast to the regulatory WRAM accounts that were specifically created to track the difference between “adopted” and “actual” revenues, all revenues are booked for financial accounting under Generally Accepted Accounting Principles (“GAAP”) without distinguishing between whether or not those revenues have been billed to customers..²⁹ In times of lower consumption, therefore, the monthly revenue “recognized” for financial accounting includes both the “actual” or “recorded” revenues, as well as the “unrecovered” or “unbilled” revenues that have not yet been received from customers.

Outside auditors have informed the water utilities that, due to the GAAP financial standard contained in EITF Issue No. 92-7 (discussed in greater detail in Section II.C, below), there are some cases in which only “recorded” revenue should be booked under GAAP, rather than the full amount of “adopted” revenue. In particular, if a regulated company may not actually recover the full adopted revenue within the EITF-prescribed time period of 24 months (from the end of the accounting period), EITF Issue No. 92-7

²⁸ Note that, in addition to the water production costs listed, Apple Valley has an MCBA for leased water rights as authorized by D.06-06-039. Also, Cal Am’s MCBA is calculated on a unit basis so the adopted cost is the average unit cost of production.

²⁹ While it may not be true from a technical perspective, one could conceptualize the financial accounting approach under GAAP as one that books “adopted” revenues on a monthly basis (rather than “actual” billed revenues). From a technical perspective, it appears that there may be variations among the companies. For example, it appears that rather than booking “adopted” revenues for monthly financial accounting purposes, another approach is to book “actual” billed revenues plus the monthly net WRAM/MCBA amount for that area (thus taking into account changes in water production costs in the MCBA).

could require that the “unbilled” revenue must be taken off the books, which could, in turn, trigger a need for financial restatements. Financial restatements are expensive for companies to undertake and can result in the company’s loss of credibility and confidence in the financial markets, leading to lower credit ratings, higher borrowing costs, and potentially, less viable utilities.

B. The Purpose of the WRAM/MCBA Mechanisms

In the WRAM decisions, the Commission approved settlements that established Pilot Programs to encourage conservation by Applicants’ ratepayers. The Pilot Programs consisted of conservation rate designs,³⁰ as well as a WRAM and an MCBA (to track the costs of water production) for each company’s ratemaking unit.³¹

Applicants’ WRAMs and MCBAs are intended to “de-couple” the relationship between water sales and company revenues, while passing on to ratepayers the cost savings associated with conserving water.³² Traditionally, a regulated company’s earnings decrease when consumption of its product decreases. The WRAM/MCBA mechanisms are intended to remove this disincentive by rendering companies “indifferent” to the volume of water consumed by its customers. Through the WRAM, the revenues that would otherwise decrease due to increased conservation by customers

³⁰ For example, Cal Water’s conservation rate designs generally include increasing block, or “tiered,” rates for residential customers. For most non-residential customers, the conservation rate designs shift more cost recovery to the volumetric “quantity” charges (from the monthly fixed “service” or “meter” charges). These rate design changes were intended to send price signals to customers to conserve water. See Cal Water Settlement at Sections IV-V.

³¹ Applicants’ Settlement Agreements (Recovery and Refund Section). Note that, while the Commission also adopted a conservation rate design for Suburban Water Systems (“Suburban”) in D.08-02-036, the “Monterey-style WRAM” adopted for Suburban has characteristics that are very different from the WRAMs adopted for Cal Water and Park. See D.08-02-036 at 25-29.

³² See, e.g., Cal Water Settlement at Section VI. The WRAMs track the difference between actual revenue and adopted revenue, with some exceptions, and are intended to ensure recovery of certain fixed and variable costs. *Id.* The MCBAs track the difference between actual variable costs and adopted variable costs associated with purchased water, purchased power, pump taxes, and other production costs specifically allowed by the Commission, and are intended to capture both the cost savings and cost increases of those items. *Id.* In particular, a component for each item is established in the MCBAs to replace the previous Incremental Cost Balancing Accounts.

are tracked to ensure recovery by the company. Through the MCBA, any costs that change as a result of lower water consumption (such as those related to purchasing water, purchasing power, and pumping) are tracked to ensure that customers get the benefit of cost decreases.

The new WRAM/MCBA mechanisms enabled the Commission to modify rate designs to provide customer with an incentive to conserve, but to do so in a manner intended to be “revenue-neutral” from a company’s perspective. Therefore, for most of Cal Water’s residential customers, for example, the Commission implemented tiered rates (or “increasing block rates”) that increase the price per-unit-of-water at certain carefully-adopted increments of increasing usage.³³ For most of Cal Water’s non-residential customers (e.g., commercial, industrial, and institutional customers), the Commission retained the single quantity rate,³⁴ but increased that usage-based rate to encourage conservation.³⁵

C. Financial Accounting Standard for “Alternative” Revenues

Certain financial accounting issues and standards are addressed by an “Emerging Issues Task Force” (“EITF”) that is chaired by a member of the Financial Accounting Standards Board (“FASB”),³⁶ with fourteen task force members “drawn from

³³ Cal Water Settlement at Section IV. For the reasons discussed in the Cal Water Settlement, the rate designs for customers in Residential Group 3 were not changed. *Id.*

³⁴ Cal Water Settlement at Section V. The 2-tiered rate design for non-residential customers in Cal Water’s Stockton District was retained. Cal Water Settlement at 6, note 5.

³⁵ All of these rate design changes were crafted to be “revenue-neutral.” Thus, when the quantity rates for non-residential customers were increased, their flat-rated monthly service charges were also decreased. Cal Water Settlement at Section V. Neither the rates nor the rate designs for miscellaneous customer classes were changed in the proceeding. *Id.* at Section V(3).

³⁶ “Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. Those standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC) (Financial Reporting Release No. 1, Section 101, and reaffirmed in its April 2003 Policy Statement) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979).” <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495> (accessed on July 16, 2010).

a cross-section of the FASB's constituencies, including auditors, preparers, and users of financial statements."³⁷ In 1992, the EITF considered an issue related to "alternative" revenues of rate-regulated utilities – in particular, how additional revenues that will be recovered in the future should be treated for accounting purposes.³⁸

As described in an EITF Abstract addressing the issue, the EITF concluded such future revenues could be recognized if the following conditions are met:

1. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.
2. The amount of additional revenues for the period is objectively determinable and is probable of recovery.
3. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.³⁹

The accounting standard developed above has historically been referred-to as EITF Issue No. 92-7, but is now codified as Accounting Standards Codification (ASC) 980-605-25 (see Attachment 2).⁴⁰

Consistent with the first condition, the Commission established Applicants' WRAM/MCBA mechanisms in the WRAM decisions, and provided for an annual opportunity to recover under-collections, or return over-collections, of net WRAM/MCBA

³⁷ <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137512> (accessed on July 16, 2010). "The Emerging Issues Task Force (EITF) was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and an FASB Invitation to Comment on those recommendations. The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature." *Id.*

³⁸ The EITF Abstract for Issue No. 92-7 was entitled "Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs." See <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820915047&blobheader=application%2Fpdf> (accessed July 16, 2010).

³⁹ The substance of EITF Issue No. 92-7 is now included in Accounting Standards Codification (ASC) 980-605-25. The relevant excerpt from ASC 980-605-25 appears in Attachment 2, at 1-2 (emphasis added) (accessible at to holders of a FASB ASC account (no fee required) at http://asc.fasb.org/print&rendercmd=section&trid=2156855&nav_type=section_rollover_page_functions).

⁴⁰ *Id.*

balances. Consistent with the second condition, net balances are “objectively determinable” in that they are calculated by comparing adopted revenues and expenses to actual revenues and expenses. In addition, there is no “earnings test” or other provision that would prevent the recovery of net WRAM/MCBA balances, rendering them “probable of recovery.”

The third condition, however, will prevent Applicants from being able to recognize certain WRAM revenues to the extent that recovery of those revenues is not complete within 24 months of the relevant financial period, as explained further below. Furthermore, Applicants have been informed that this standard could preclude recognition of all of the uncollected WRAM revenue for a fiscal period (rather than just the amounts that would be collected after the 24-month period that follows the end of the fiscal period) if the WRAM account balance for that fiscal period, in its entirety, does not meet the three criteria of EITF Issue No. 92-7.

D. Energy RAMs and EITF Issue No. 92-7

The financial accounting standard under discussion, EITF Issue No. 92-7, applies to Commission-regulated energy utilities, raising the issue of how EITF Issue No. 92-7 has impacted the decoupling revenue adjustment mechanisms that have been used by those companies.

In 2004, for example, the Commission approved several new regulatory accounts for Pacific Gas & Electric (“PG&E”), including “[f]our revenue adjustment mechanisms to ensure that PG&E recovers its authorized revenue requirements for distribution (“DRAM”), public purpose programs (“PPPRAM”), nuclear decommissioning (“NDAM”), and utility retained generation (“UGBA”).”⁴¹ The Commission authorized recovery for those accounts over a 12-month period beginning January 1, 2005, and appears to have

⁴¹ Resolution E-3906 at 3 (describing accounts approved in Resolution E-3862).

allowed this amortization period on an on-going basis for these revenue adjustment accounts as well as several other balancing accounts.⁴² With recovery of these revenues within a 24-month period, the standard set by EITF Issue No. 92-7 was never implicated.

For these accounts in future years, PG&E was directed to file for amortization “no later than the September 1st of the year prior to when rates become effective.”⁴³ The advice letter was to include “balances recorded as of July 31 of the year in which the advice letter is filed, and estimated balances for August through December of that year.”⁴⁴ Amortization of these accounts became part of PG&E’s Annual Electric True-Up (“AET”), “an advice letter process in which PG&E consolidates revenue requirements authorized on January 1 of the following year.”⁴⁵

San Diego Gas & Electric (“SDG&E”), in turn, has an Electric Distribution Fixed Cost Account (“EDFCA”) in order “to record the difference between the Utility’s authorized distribution base margin revenue requirement and recorded base margin revenues from authorized distribution rates....”⁴⁶ SDG&E must amortize this account on an annual basis by filing “in October of each year an advice letter requesting to amortize the projected EDFCA year-end balance in the electric distribution rate effective January 1 of the following year.”⁴⁷

In all of these cases, it appears that the Commission authorized such short amortization periods that the specter of EITF Issue No. 92-7 was not raised.

⁴² Resolution E-3906 at 15-16 (Ordering Paragraphs 3.a and 6).

⁴³ *Id.* at 16 (Ordering Paragraph 6).

⁴⁴ *Id.*

⁴⁵ D.06-07-030 at 12, 2006 WL 2076541 at *5 (citations omitted).

⁴⁶ SDG&E Tariff Sheet 20731-E at Section 1.

⁴⁷ SDG&E Tariff Sheet 21115-E at Section 8.

E. WRAM/MCBA Accounts vs. Other Balancing Accounts

The Commission's standards for handling balancing accounts are contained in guidance developed by Commission staff in Standard Practice U-27-W ("SP U-27") as well as in Commission decisions and resolutions.⁴⁸ The application of financial accounting standard, EITF Issue No. 92-7, to the Applicants' WRAM and MCBA accounts has raised the issue of whether, and to what extent, the standards in SP U-27 and other Commission decisions apply to WRAM/MCBA accounts. For example, Water Division staff rejected Cal Water's proposed amortization periods for 2009 WRAM/MCBA balances on the grounds that D.03-06-072⁴⁹ govern the amortization periods of WRAM/MCBA balances (also contained in SP U-27⁵⁰).⁵¹ Thus, with the WRAM decisions and settlements silent on the appropriate time periods for amortization, do SP U-27 and D.03-06-072 mandate certain amortization periods for WRAM balances?

Cal Water sought review of that advice letter rejection partially on the grounds⁵² that neither SP U-27,⁵³ which Commission staff developed as guidance, nor D.03-06-

⁴⁸ SP U-27 appears to have been most recently revised in May 2008.

⁴⁹ In R.01-12-009, the Commission considered "balancing-type memorandum accounts" that track "offsettable expenses" such as those for purchased water, purchased power, and pump tax, and adopted procedures for their treatment in D.03-06-072. While it does not appear that the appropriate time periods for amortization were issues addressed by either the Commission or the parties in that proceeding, Appendix A to that decision nevertheless states that, for under-collections in the balancing accounts that were the subject of the proceeding, "[i]f the amount is less than 5% of the last authorized revenue requirement, recovery should occur in one year, for 5-10% in two years and over 10% in three years." D.03-06-072, Appendix A at 3 (Section 5(a)).

⁵⁰ In the section addressing "Recovery Periods," SP U-27 indicates that "under-collections" in balancing accounts will be amortized over the following periods depending on the percentage of "gross revenues" represented by the amount of the balance: 1 year for under-collections less than 5% of gross revenues, 2 years for under-collections of 5-10% of gross revenues, and 3 years for under-collections over 10% of gross revenues. SP U-27 at 14 (para. 56(b)). SP U-27 does not cite an authority for this guidance. Note that, while paragraph 56(b) of SP U-27 specifically refers to "[r]eserve and memo accounts," reserve and memo account balances are moved to "balancing accounts" when they have been approved for recovery. SP U-27 at 8 (para. 29).

⁵¹ Letter from James Boothe, Division of Water and Audits, to Darin Duncan, California Water Service Company, dated June 9, 2010.

⁵² Cal Water argued that the rejection of AL 1984 was erroneous on several grounds. Cal Water's Request for Commission Review of Advice Letter 1984 Rejection (June 24, 2010) ("CWS' Request for Review of AL 1984").

072, which addressed incremental cost balancing accounts for offsettable expenses, mandate or limit the amortization time periods for WRAM/MCBA balances.⁵⁴ However, because Applicants have been able to collaborate with DRA to develop a proposed regulatory fix for these issues, Applicants believe that the Commission may adopt the proposals in this Application without addressing whether the amortization periods in SP U-27 or D.03-06-072 govern WRAM amortization.

F. The Commission Should Allow Amortizations of 18 Months or Less

As a practical matter, applying EITF 92-7 to Applicants' WRAM/MCBA balances means that, in order for these new regulatory accounting mechanisms to operate as intended, Applicants need the flexibility to amortize those balances over an 18-month period or less. In particular, while balances over 5% of a district's last authorized revenue requirement would be amortized over periods of 24 months or more under SP U-27, it is critical that Applicants instead be allowed to amortize such amounts over 18

⁵³ Applicants also note that the amortization regime for WRAM/MCBA accounts is different from that of other balancing accounts (per SP U-27, D.03-06-072, and D.06-04-037) in several ways, so it would not be appropriate to impose piecemeal amortization-related elements for other balancing accounts to WRAM/MCBA accounts. Explicit differences between WRAM amortization and SP U-27 amortization include:

- when amortization can occur (annually for WRAM/MCBA accounts (e.g., Cal Water Settlement at Section IX(4) vs. for other balancing accounts, in GRC or as soon as trigger is reached (SP U-27 at 9, para. 39, citing to D.06-04-072, Ordering Paragraph 2));
- the trigger for amortization (specific trigger indicated in each Applicants' WRAM settlement vs. 2% for other balancing accounts (D.06-04-037 at OP 3)); and
- how surcredits are to be applied to customers' bills (on quantity rates vs. on service charge (D.03-06-072, Appendix A at 3.).

⁵⁴ As indicated in Cal Water's Request for Review of AL 1984, Cal Water believes that the nature of WRAM accounts, which track revenue changes, is fundamentally different from the "balancing-type memorandum accounts" that track lags in the recovery of offsets from water production expenses (specifically, purchased power, purchased water, and pump tax) that the Commission addressed in D.03-06-072. CWS' Request for Review of AL 1984 at 2-3. For example, in D.03-06-072, the Commission provides the framework for its discussion by laying out issues such as "1. What Expenses are Offsettable?" (purchased power, purchased water, and pump tax, as agreed upon by the parties), and "2. Is a Balancing Account, or a Memorandum Account, the Proper Way to Track Offsettable Expenses?" (yes, according to most parties). D.03-07-062 at 12-13. These statements illustrate that the Commission's consideration of the proper procedures for handling balancing accounts was in the context of the most prevalent balancing accounts used at the time – those for expenses over which a utility has no control, involving costs that are appropriate to pass through to ratepayers.

months, at most. It is only with this flexibility that a water utility can ensure full recovery within 24 months of the end of the reporting period, and can thus assure auditors and financial analysts that the utility is in full compliance with EITF Issue No. 92-7.

The following step-by-step example of how Cal Water's 2010 WRAM/MCBA balances would be processed under the Commission's current procedures illustrates why Applicants are requesting an amortization period of 18 months or less:

- Cal Water reports on its financial status on a calendar-year basis. While the WRAM for calendar year 2010 tracks the differences between recorded and authorized (or adopted) revenue each month, it is the full amount of adopted revenue that is "booked" for 2010 under GAAP, with the end of the financial period being December 31, 2010. EITF Issue No. 92-7 then requires that all of the WRAM revenue recognized in 2010 (the "adopted" revenue) must be recovered in full by December 31, 2012.
- If the current WRAM/MCBA processes remain unchanged (*i.e.* if the Commission does not adopt the proposals herein), Cal Water would submit a report on its net WRAM/MCBA balances for calendar year 2010 to the Commission, as required by D.08-02-036, by the end of March 2011.
- While Cal Water has traditionally waited 30 days before submitting an advice letter seeking amortization of WRAM/MCBA balances that exceed the trigger amounts,⁵⁵ Cal Water could implement surcharges (or surcredits) sooner by submitting its amortization advice letter at the same time it submits its annual WRAM/MCBA report. Assuming no objections to either the report or the advice letter, Cal Water could then theoretically begin applying surcharges to bills as early as the end of April 2011 or the beginning of May 2011.⁵⁶
- A 24-month amortization period for these surcharges would not allow full recovery of the WRAM/MCBA balances until May 2013, however, when the financial accounting standard under GAAP would require full recovery by the end of December 2012.⁵⁷ If the under-collection exceeded 10% that, according to Water Division staff, would require a 36-month amortization, the problem would be exacerbated.
- Under GAAP accounting, therefore, all of the "unbilled" WRAM revenues for

⁵⁵ Unlike other companies, Cal Water's Settlement does not specify a deadline for filing advice letters for amortization. See Cal Water Settlement at Section IX.

⁵⁶ Cal Water's past practice, however, has been to submit an advice letter for amortization at the end of April, with an effective date of 30 days, such that surcharges are not put onto customers' bills until the end of May, at the earliest.

⁵⁷ While Cal Water's Settlement does not preclude it from filing its WRAM/MCBA annual filing and requests for amortization earlier than March 31, 2010, which could allow a surcharge to begin as early as late February or early March, a 24-month amortization or longer would still be a problem because it would not allow full recovery within 24 months after the accounting period ends.

accounts with amortization periods of 24 months or more would therefore need to be removed from 2010 revenues for financial accounting purposes.

- By contrast, an 18-month amortization period in this scenario would allow full recovery of revenue in November 2012.

Applicants emphasize, however, that while allowing an 18-month amortization should theoretically enable Applicants to meet the EITF 92-7 standard, thus enabling “unbilled” WRAM revenues to remain “booked” in 2010, making only this one modification to the processing of WRAM/MCBA amortization leaves very little room for error. The complications of real life often lead to unexpected delays. For these reasons, Applicants propose additional modifications to facilitate timely WRAM/MCBA amortization in Section III below.

G. The Impact of Shorter Amortization Periods

When first considering these issues, Applicants’ strong preference was to amortize net WRAM/MCBA balances over 12 months for several reasons. First, as discussed in the next section, the Commission appears to routinely allow 12-month amortization periods for similar balancing accounts for energy companies. Second, a 12-month cycle would help to simplify a regulatory accounting process that is already replete with complications due to the variety of rate adjustments that Applicants must already implement. In addition, “inter-generational equity” would be better served with shorter amortization – the sooner balances are amortized, the more likely it is that the ratepayers from whom Applicants over-(or under-) collected will be the same as the ratepayers who receive the corresponding surcredit (or surcharge).

From the perspective of the present ratepayer, however, consideration must also be given to the fact that a shorter amortization period for surcharges also amounts to a higher surcharge. Thus, as a result of discussions with DRA, Applicants have agreed to request authorization for an amortization period of 18 months for those WRAM/MCBA

balances that are higher than 5% of a ratemaking unit's last adopted revenue requirement.

To demonstrate the potential impact of shortening amortization periods to 18 months, the Table below provides an example using six Cal Water districts that had high WRAM/MCBA balances in 2009. The attachment lists the surcharges that are currently being applied based on amortization periods that are consistent with SP U-27-W (per AL 1996), as compared to the surcharges that Cal Water originally requested for those districts based on 18 month of amortization (per AL 1984). Cal Water offers this information solely for illustration purposes.⁵⁸

TABLE: SAMPLE IMPACT OF 18-MONTH AMORTIZATION

A	B	C	D	E	F	G	H	I
CAL WATER DISTRICT	2009 WRAM/MCBA Balance	% of Recorded RR	Current Surcharges (AL 1996)			Originally proposed Surcharges (AL 1984)**		
	Recorded RR for Previous Year		# Mos. Amort.	Metered (per ccf)	Flat-rate (per ccf)	# Mos. Amort.	Metered (per ccf)	Flat-rate (per ccf)
DIXON	\$182,978 \$1,810,900	10.1%	36	\$0.0871		18	\$0.1736	
HERMOSA REDONDO	\$2,123,170 \$22,571,100	9.4%	24	\$0.1774		18	\$0.2363	
KERN RIVER VALLEY	\$629,676 \$4,976,700	12.7%	36	\$0.3970		18	\$0.7917	
OROVILLE	\$315,613 \$3,426,945	9.2%	24	\$0.1253	\$0.4616	18	\$0.1669	\$0.6148
SALINAS	\$1,526,860 \$24,005,900	6.4%	24	\$0.1044		18	\$0.1390	
VISALIA	\$998,249 \$19,901,200	5.0%	24	\$0.0493	\$0.0552	18	\$0.0657	\$0.0736

Column B identifies (1) the net WRAM/MCBA balance for calendar year 2009, which in this case is the "under-collection" to be recovered from ratepayers through surcharges, and (2) the total recorded revenue requirement for that ratemaking unit for the previous year.

Column C provides the net 2009 WRAM/MCBA balance as a percentage of the previous year's recorded revenue requirement. This is the percentage that is used to determine whether the amortization "trigger" has been met, and what the appropriate period for amortization should be. (Note that the Applicants' Settlements state that this percentage should be calculated based on the "recorded" revenue requirement, while the proposal herein would use the "adopted" revenue requirement, a modification suggestion by DRA that Applicants do not oppose.)

⁵⁸ See the Note at the bottom of the Table.

Columns D, E, and F identify the number of months over which the net 2009 WRAM/MCBA balances are currently being amortized according to the time periods in SP U-27-W, and the resulting surcharge per ccf consumed. The Oroville and Salinas Districts have un-metered flat-rate customers, in addition to metered customers. These surcharges were proposed in Cal Water Advice Letter 1996, and approved on July 23, 2010.

Columns G, H, and I reflect the original 18-month amortization periods, and resulting surcharges, proposed by Cal Water in Advice Letter 1984, which Commission staff rejected. Cal Water then submitted AL 1996 to establish interim surcharges pending the Commission's review of this Application.

** Note that, if the Commission approves the Application, actual surcharges for these districts will either have to be recalculated, or supplemented with an additional surcharge, to amortize the remaining net 2009 WRAM/MCBA balances in a manner that will ensure complete recovery by December 31, 2011.

III. OTHER PROPOSED MODIFICATIONS TO THE WRAM DECISIONS

Based on input from the Division of Ratepayer Advocates, and in addition to the amortization periods discussed above, Applicants propose the following changes to the informal processes by which Applicants' WRAM/MCBA advice letters filings are handled on an on-going basis.⁵⁹ Applicants propose that, while the WRAM decisions do not address the current processing of these advice letters to this level of detail, if the Commission adopts Applicants' proposals, a decision adopting these modifications

⁵⁹ To assist in reviewing Applicants' proposals, see, for example, the following provisions of the Cal Water Settlement relating implementation of the WRAMs and MCBAs (Cal Water Settlement at Section IX):

- 3) Parties agree that, in each district, the balance in the WRAM will offset the balances in the MCBAs in the following manner:
 - a. Reporting Requirements: By March 31st of each year, Cal Water will provide the Water Division (with a copy to DRA) with a written report on the status of the WRAM and MCBAs as described herein.
 - b. WRAM: The written report will include a section on the WRAM in each district showing the revenue over- or under-collection with respect to actual (or recorded) water sales as of December 31st of the preceding calendar year. Differences between Actual Revenues and Adopted Revenues will be tracked in the WRAM and accrue interest at the 90-day commercial paper rate.
 - c. MCBA: The written report will include a section on the MCBAs in each district comparing Actual MCBA Costs with Adopted MCBA Costs as of December 31st of the preceding calendar year. Differences between Actual Costs and Adopted Costs will be tracked in the MCBAs and accrue interest at the 90-day commercial paper rate.
 - d. If this report shows that the combined over- or under-collection for the WRAM or the MCBAs in any district exceeds 2.5% of the district's total recorded revenue requirement for the prior calendar year, Cal Water will file an advice letter within 30 days that amortizes the balance in both of the accounts in the district.
- 4) Surcharges and surcredits: Recovery of under-collections and refunds of over-collections will be passed on to ratepayers through volumetric surcharges and surcredits.

should specify these details in order to prevent any confusion as to what processes apply to WRAM/MCBA amortization advice letters.

A. ISSUE 2 – DEADLINE FOR SUBMITTING REPORT: When should Applicant submit its annual WRAM/MCBA report?

ISSUE 2: (A) Currently – Applicants submit an annual report on the status of their combined net WRAM/MCBA balances by March 31st, and include data up to the previous December 31st.⁶⁰

(B) *Proposal – Submit annual report by November 30th, and include data up to the previous September 30th.*

Both PG&E and SDG&E file reports on an annual basis in September or October, for amortization to begin the following January.⁶¹ As discussed in Section II.D, mirroring this practice for the water utilities decreases the risk that full recovery may extend beyond the 24-month limitation of EITF Issue No. 92-7.

B. ISSUE 3 – DEADLINE FOR REQUESTING AMORTIZATION: When should a utility ask to amortize a WRAM/MCBA balance?

ISSUE 3: (A) Currently – The Applicants can only request to amortize WRAM/MCBA balances on an annual basis.⁶² While the Cal Water Settlement lacks a deadline, the Golden State and Park Water Settlements require the companies to request amortization within 30 days of filing their annual WRAM/MCBA reports.⁶³

(B) *Proposal – Submit request for amortization on or before March 31st.*⁶⁴

Applicants propose this modification, which would increase certainty in the process, at the suggestion of DRA.

⁶⁰ Cal Water Settlement at Section IX(3)a; Golden State Settlement at IX.C.1; and Park Water Settlement at 9.2 a.

⁶¹ See Section II.D, *supra*.

⁶² Applicants note that the WRAM settlements allow for amortization only once a year, while SP U-27 and Water Industry Rule 8.5 allow for amortization when a balance reaches the 2% trigger. Such a low balance would allow amortization over 12 months, and would decrease the likelihood of amortizations over 24 or 36 months. In order to maintain the annual filing period established in the WRAM settlements, other aspects of WRAM/MCBA amortization should be modified per this Application.

⁶³ *Id.*

⁶⁴ Under Applicants' proposals, the October 31st WRAM/MCBA reports will include only data up to the previous September 30th, but the proposed amortization advice letter should include recorded balances through December 31st. Applicants would then have until the following February 28th to file the proposed amortization advice letter.

C. ISSUE 4 – PROCESS FOR REQUESTING AMORTIZATION: How should a utility ask to amortize a WRAM/MCBA balance?

ISSUE 4: (A) Currently – The WRAM decisions do not specify the appropriate advice letter tier for requesting amortization, but Water Industry Rule 7.3.1(1) of General Order 96-B allows Tier 1 advice letter submissions to amortize balancing accounts in general.

(B) *Proposal – Clarify that, like other balancing accounts, the amortization of WRAM/MCBA balancing accounts can be requested via a Tier 1 advice letter.*

This modification will provide clear guidance to the water utilities and Water Division staff for processing these advice letters. A Tier 1 filing that is effective immediately will decrease the likelihood of delay in implementing surcharges or surcredits.

D. ISSUE 5 – THE “TRIGGER” FOR AMORTIZATION: Which WRAM/MCBA balances should be amortized?

ISSUE 5: (A) Currently – Applicants may not amortize a WRAM/MCBA account until it exceeds a certain “trigger.”

- i. Under the WRAM settlements, the trigger is a percentage of a district’s (or ratemaking unit’s) “total recorded revenue requirement for the prior calendar year.” Pursuant to D.03-06-072, the trigger for other balancing accounts is a percentage of a district’s “last authorized revenue requirement.”⁶⁵
- ii. The trigger for Cal Am, Cal Water, and Golden State is 2.5%, while the trigger for Park Water is 2%.⁶⁶ For balancing accounts generally, the trigger is 2%.⁶⁷
- iii. For annual WRAM/MCBA balances less than the trigger amount – carry over to next annual WRAM/MCBA filing until trigger is met or amortize in the next GRC.

(B) *Proposal – Allow amortization of WRAM/MCBA accounts regardless of percentage, as follows:*

- i. *To be consistent with the way triggers are calculated for other balancing accounts, calculate percentages for WRAM/MCBA accounts based on the district’s “last authorized revenue requirement.”*

⁶⁵ D.03-06-072, Appendix A at 3.

⁶⁶ Applicants’ Settlement Agreements (Recovery and Refund Section).

⁶⁷ SP U-27 at 9 (para. 39); GO 96-B, Water Industry Rule 8.5.

- ii. *To establish WRAM triggers that are consistent across all Applicants (subject to SP U-27 and Water Industry Rule 8.5), set the trigger at 2%.*
- iii. *For balances under 2%, however, utility may choose to amortize, or may carry the balance over to the next annual WRAM/MCBA filing until trigger is met or amortize in the next GRC.*
- iv. *To be consistent with other balancing accounts, for balances greater than 2%, utility must amortize.*

Note: As reflected in ISSUE 3, a utility can only amortize WRAM/MCBA accounts once a year. Under SP U-27 and Water Industry Rule 8.5, the utility requests amortization as soon as the balance reaches the trigger (or if it does not trigger, in the next GRC).⁶⁸

While appearing to be negligible in the abstract, revenue that can amount to almost 2% of a district's revenue requirement must not be dismissed when there is the possibility, in light of the accounting limitations of EITF Issue No. 92-7, that a water utility may not be able to properly recognize them as revenue in the current financial reporting period. Based on the known interaction between EITF Issue No. 92-7 and the WRAM balances, the water utilities should be able to amortize amounts that are lower than the originally-adopted trigger percentages, with the option of not amortizing them if the amounts truly are negligible.

This approach also promotes inter-generational equity by decreasing the lag time between when a positive or negative amount is tracked in a WRAM, and when a corresponding surcredit or surcharge is applied to customers' bills. This modification renders it more likely that the customers from whom the company initially over- or under-collected will actually be the ones to receive the surcredit/surcharge.

E. ISSUE 6 – APPLYING SURCHARGE/SURCREDIT: How should the surcharge or surcredit be applied to customers' bills?

ISSUE 6: (A) Currently – The WRAM decisions require that the water utilities apply over- or under-collections to customers' bills as volumetric surcharges or surcredits.⁶⁹

⁶⁸ SP U-27 at 9 (para. 39).

⁶⁹ Applicants' Settlement Agreements (Recovery and Refund Section).

(B) Proposal – Amortize an under-collection using a surcharge on the quantity charge. Amortize an over-collection through a surcredit on the service charge.

Applicants propose this modification at the suggestion of DRA. Adopting this modification would make Applicants' method of amortization consistent with D.03-06-072 and would avoid the appearance that a WRAM/MCBA credit balance is being refunded disproportionately to those customers who waste water.

F. ISSUE 7 – ACCOUNTING FOR AMORTIZED AMOUNTS (“FIRST IN, FIRST OUT”)

ISSUE 7: A) Current – The WRAM decisions do not specify how to account for the amortized amounts as the utility either receives revenues from surcharges, or returns money through surcredits.

(B) Proposal – Within a ratemaking unit, as surcharge revenues come in (or as surcredits are applied), the utility will pay down (or apply the surcredits to) the oldest net WRAM/MCBA balances first.

This provision would clarify that, as surcharges or surcredits are applied to customers' bills, the oldest amounts in the WRAM/MCBA accounts of a district will be offset first. Applicants request that the Commission explicitly adopt this provision to assure the financial community that recovery of all revenue recognized in a year will be fully collected within 24 months of the end of that year, as discussed above in Sections II.C and II.F.

G. ISSUE 8 – “UNDER-AMORTIZED” AND “OVER-AMORTIZED” AMOUNTS: When a surcharge/surcredit is not collecting/recovering the intended dollar amounts, how should the remainder balance be handled?⁷⁰

ISSUE 8: A) Current – The WRAM decisions do not specify how to handle under- or over-amortized amounts. For other balancing accounts, the general practice appears to be to continue the surcharge/surcredit until the end of the amortization period, and retain the remaining balance in the balancing account that will in turn be amortized once that amount reaches the trigger.

B) Proposal – In each annual WRAM/MCBA filing, give Applicants the option of including any remaining amounts that have been under- or

⁷⁰ Over- or under-amortization will likely result from the discrepancy between (1) the amount of consumption, or number of services, assumed when the surcharge/surcredit was calculated, and (2) the actual consumption, or actual number of services, while the surcharge/surcredit was in place.

over- amortized thus far. For example, if an 18-month surcharge is set up in Year 2 to recover the WRAM revenues for Year 1, and there is an under-recovery of the Year 1 revenues during Year 2, then the Year 3 annual WRAM/MCBA filing for that ratemaking unit would include the “under-amortized” amount that was supposed to have been collected in Year 2, but that was not collected. (The 18-month surcharge authorized in Year 2 would continue for its full amortization period.)

When actual consumption or number of services is less than the adopted consumption or number of services, the full amount of authorized WRAM/MCBA revenue that is supposed to be collected during the amortization period may not actually be collected by the end of the 24-month period. In this context, the remaining amount of revenue that was not collected through amortization could be described as “under-amortized.” Of course, the reverse may also be true and may result in “over-amortization.” The water utilities may be able to curtail an over-amortized surcharge by filing a Tier 1 advice letter in accordance with GO 96-B.

Neither the WRAM decisions nor the WRAM settlements explicitly address these situations. The general practice of the Class A utilities is to roll over these remainder amounts until the balance again reaches the amortization trigger, or the next rate case is filed. Using this approach for the WRAM revenues has raised the concern of Applicants’ accountants that the full amount of authorized WRAM/MCBA revenue may not actually be collected by the end of the 24-month period, however. This concern is exacerbated by the limitation that the request to amortize the WRAM revenues can only be filed on an annual basis, not whenever the balance meets the trigger percentage.

Instead of waiting until the full WRAM amortization period is over, and then determining the amount of any under- or over-amortized for future eventual amortization, Applicants propose that the Commission give them the option of evaluating, when a utility makes its annual WRAM/MCBA filing, whether under- or over-amortization is occurring with regard to any WRAM/MCBA account, even if amortization for the relevant balance is still on-going. Applicants would then have the option of including those

remainder amounts in the new amortization at that time, rather than waiting until the original amortization period ends. The previously approved amortization surcharge (or surcredit) would continue, but the under-amortized remainder could be combined with the new balance to be amortized. As long as the revenue from the new surcharge is treated as “first-in, first-out” as requested in Issue 7, there should not be a conflict with EITF Issue No. 92-7. Finally, for the sake of equity, the same approach is proposed for either under- or over-amortization.

H. ISSUE 9 – ADDITIONAL AMORTIZATION FOR OUTSTANDING WRAM REVENUES

ISSUE 9: (A) Current – Applicants have already begun to amortize the WRAM/MCBA balances for 2009 (which in some cases may include 2008 balances) by applying surcharges to customers’ bills. In several cases, the time periods for amortization and the surcharges authorized by Water Division staff will not allow Applicants to fully recover all authorized WRAM revenues for 2009 before December 31, 2011, which is 24 months after the end of the 2009 fiscal period.

(B) Proposal – (i) Allow Applicants to implement an additional surcharge in those ratemaking units where any 2009 (and in some cases, 2008) WRAM/MCBA revenues will still be outstanding as of December 31, 2011, including units in which there is not a surcharge yet because the trigger was not previously met.⁷¹ The additional surcharge would be calculated to recover the amounts that will be outstanding as of December 31, 2011, and may also include under-amortized amounts associated with the 2009 (and 2008) WRAM/MCBA balances.

(ii) In units with the additional surcharge, the original surcharge to amortize the 2009 (and 2008) WRAM/MCBA balance (if there is one) would continue as authorized, and then end by December 31, 2011. The additional surcharge could begin soon as soon as possible after the Commission’s decision on this Application, and would end by December 31, 2011.

(iii) Allow Applicants to request the additional surcharge via a Tier 1 advice letter, and authorize Water Division staff to approve such advice letters as long as they are consistent with the decision resolving this Application, or SP U-27.

⁷¹ This will be referred to as an “additional surcharge” even though some ratemaking units do not yet have surcharge for 2008-2009 balances because the trigger was not met.

In addition to modifying certain aspects of the processing of WRAM/MCBA advice letters on a forward-looking basis, as proposed above, Applicants request authorization to implement an additional surcharge to ensure recovery of 2008-2009 WRAM/MCBA balances that are already in the process of amortization, but that will not be fully recovered by December 31, 2011. This under-recovery may be the result of long amortization periods, under-amortization, or because a surcharge was never implemented for 2008-2009 balances because the trigger was not met. Thus, the additional surcharge would be calculated to recover the amounts that will be outstanding as of December 31, 2011, including any under-amortization, for the 2008-2009 WRAM/MCBA balances.

Applicants would like to submit requests for these additional surcharges immediately after the Commission adopts a final decision on this Application in order to implement the additional surcharges as soon as possible given the impending December 31, 2011 deadline. Accordingly, Applicants request that the Commission authorize Water Division staff to accept such requests via the Tier 1 advice letter process. The additional surcharge would end by December 31, 2011. The original surcharge already authorized for amortization of 2008-2009 WRAM/MCBA balances would continue as authorized, but would end by December 31, 2011. Consistent with Applicants' proposal in Issue 8, any under-amortized (or otherwise unrecovered) amounts for 2008-2009 WRAM/MCBA balances may be included for amortization in the next annual WRAM/MCBA filing.

IV. TIMING OF THIS APPLICATION IN RELATION TO THE WRAM DECISIONS

Commission Rule 16.4(d) requires an explanation for why an application or petition to modify could not have been presented within a year of the Commission decision that an applicant seeks to modify. While this Application was filed within one

year of the most recent WRAM decision, D.10-06-038 (issued on June 29, 2010), it was filed more than one year after the earliest of the WRAM decisions, D.08-02-036 (issued on February 29, 2008). This Application could not have been filed within one year of D.08-02-036 because Applicants did not become aware of the conflict between financial accounting standard EITF Issue No. 92-7, and the Water Division staff's use of the amortization periods in SP U-27 for Applicants' WRAM/MCBA accounts, until earlier this year.

In Cal Water's case, for example, the company implemented its WRAM/MCBA mechanisms in July 2008. Thus, pursuant to D.08-02-036, Cal Water submitted its first annual report on its 2008 WRAM/MCBA balances on March 31, 2009, over a year after that February 2008 decision was issued. Moreover, Cal Water asked at that time for amortization periods for certain large WRAM/MCBA balances that were shorter than those that would be applied to other balancing accounts under SP U-27. The Commission's Water Division staff approved Cal Water's proposed amortization periods in mid-2009. Accordingly, nothing occurred within the first year after D.08-02-036 to suggest to Cal Water that there might be a need to modify D.08-02-036.

With regard to WRAM/MCBA balances tracked in 2009, Applicants submitted their annual WRAM/MCBA reports in March 2010 as provided in their respective settlements. For example, with its 2008 WRAM/MCBA balances rolled over to 2009, Golden State initially submitted eight advice letters to amortize the WRAM/MCBAs in its regions over periods of time consistent with SP U-27.⁷² Applicants first became aware that Water Division staff considered SP U-27 and D.03-06-072 to govern the

⁷² GSWC submitted eight amortization advice letters – AL 1380 for Region II, AL 1381 for Region III, AL 1389-1393 and 1395 for various Region I ratemaking areas, none of which conflicted with the SP U-27, but some of which conflicted with financial accounting standard EITF Issue No. 92-7 (AL 1380, AL 1381, AL 1389-1391, AL 1395). AL 1380 and 1381 were approved, however AL 1389-1393 and AL 1395 are still pending.

amortization periods of WRAM/MCBA accounts after April 21, 2010, when staff rejected a Golden State advice letter that requested a decrease in the amortization periods to 18 months for its Region II and III WRAM/MCBA balances, from the 24 months originally proposed by Golden State.⁷³

Aware of the rejection of Golden State's advice letter, Park Water and Apple Valley filed advice letters for their WRAM/MCBA accounts one week later and requested a 24-month amortization consistent with SP U-27, rather than seeking a shorter amortization period.⁷⁴ Park's and Apple Valley's advice letter filings were made to avoid the delay in recovery that would have likely resulted if the companies had requested their preferred amortization period of 18 months. Cal Water submitted two amortization advice letters for its 2009 WRAM/MCBA balances – AL 1983 for eighteen districts with proposed amortization periods that did not conflict with SP U-27-W,⁷⁵ and AL 1984 for six districts with proposed 18-month amortizations that did conflict with SP U-27-W. Water Division staff rejected AL 1984 on June 9, 2010.

Cal-Am submitted its annual WRAM/MCBA reports on 2008 and 2009 balances in March 2010 as provided in each district's respective settlements. Tier 1 advice letters were filed in April 2010 to amortize the WRAM/MCBA balances in two districts over periods of time consistent with SP U-27. Both advice letter filings are currently suspended pending an audit to be performed by DRA.

During these advice letter submissions, and as Water Division staff began rejecting proposed WRAM amortization periods that differed from SP U-27, Applicants

⁷³ AL 1386 of Golden State Water Company.

⁷⁴ AL 215 of Park Water Company (April 28, 2010) and AL 158 of Apple Valley Ranchos Water Company (April 30, 2010).

⁷⁵ In AL 1983, Cal Water proposed amortization periods longer than 18 months for three ratemaking areas in its Redwood Valley District in light of the unusually high surcharges that would result from shorter amortization periods, and in light of the relatively small revenue impact to the company if it is required to remove those WRAM/MCBA balances from current revenue. Cal Water is not requesting any modifications to these surcharges.

entered into discussions with Water Division staff, DRA, and the companies' accountants to consider the emerging implications of long amortization periods. As a consequence, Applicants and DRA developed the detailed proposals contained herein that balance the needs of ratepayers, the water companies, and the Commission.

As these timelines of Applicants' attempts to amortize their WRAM/MCBA accounts in a manner consistent with EITF Issue No. 92-7 demonstrate, the key policy issues raised in this Application were not ripe for discussion until earlier this year.

V. OTHER PROCEDURAL REQUIREMENTS

A. Categorization and Hearings

Applicants propose that this proceeding be categorized as quasi-legislative because it is establishing general policies affecting a class of regulated entities (those Class A water utilities with fully decoupling Water Revenue Adjustment Mechanisms) regarding how WRAM revenue should be amortized.

Applicants' proposals herein were developed in conjunction with the Division of Ratepayer Advocates, rendering it unlikely that there will be material issues of fact in dispute. Therefore, no evidentiary hearings should be necessary.

B. Proposed Schedule

Applicants have requested expedited consideration of this Application, and urged the Commission to adopt a final decision on these issues on or before December 16, 2010. Accordingly, Applicants propose the following schedule:

EVENT	INTERVENING DAYS	DATE	DAY
Proposed Application		September 13, 2010	Monday
Notice in Daily Calendar	2 business days	On or before Sept. 15, 2010	Wednesday
Responses	30 days	October 15, 2010	Friday

Reply to Responses (Prehearing Conference, if needed)	7 days (rather than 10 days) ⁷⁶ (1 day)	October 21 2010 (October 22, 2010)	Thursday (Friday)
Proposed Decision	24 days	November 16, 2010	Tuesday
Final Commission Decision	30 days	December 16, 2010	Thursday

VI. CONCLUSION

For the reasons discussed above, Applicants urge the Commission to modify the WRAM decisions according to the proposals herein, and approve additional surcharges calculated to fully recover 2008-2009 WRAM/MCBA revenues before December 31, 2011.

Respectfully Submitted,

/s/ THOMAS F. SMEGAL

DAVID P. STEPHENSON

4701 Beloit Drive
Sacramento, CA 95838
Telephone: (916)-568-4222
Fax: (916) 568-4260
dstephen@amwater.com

**Assistant Treasurer
California-American Water Company**

THOMAS F. SMEGAL

1720 North First Street
San Jose, California 95112
Telephone: (408) 367-8219
E-mail: tsmegal@calwater.com

**Vice President, Regulatory Matters
California Water Service Company**

KEITH SWITZER

Vice President of Regulatory Affairs
Golden State Water Company
630 East Foothill Boulevard
San Dimas, California 91773
Phone: (909) 394-3600, Extension 759
KSwitzer@gswater.com

**Vice President of Regulatory Affairs
Golden State Water Company**

EDWARD N. JACKSON

Park Water Company
9750 Washburn Road
Downey, CA 90241
Phone: (562) 923-0711
Fax: (562) 861-5902
ed@parkwater.com

**Project Manager
Park Water Company**

⁷⁶ Rule 2.6(e) specifies that replies to responses and protests may be filed within 10 days, unless otherwise specified by the administrative law judge.

LEIGH K. JORDAN

Apple Valley Ranchos Water Company

c/o Park Water Company

9750 Washburn Road

Downey, CA 90241

Phone: (562) 923-0711, ext.1204

Fax: (562) 861-5902

leigh@parkwater.com

Executive Vice President

Apple Valley Ranchos Water Company

Dated: September 13, 2010

VERIFICATION

I, Thomas F. Smegal, declare and say that I am an officer, to wit, Vice President of one of the Applicants, California Water Service Company, a California corporation, making the foregoing Application; that I make this verification on behalf of said Corporation; that I have read the Application and know the contents thereof; that the same is true of my own knowledge except as to the matters that are therein stated on information or belief, and as to those matters that I believe it to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on September 13, 2010, in San Jose, California.

 /s/ THOMAS F. SMEGAL

Thomas F. Smegal
Vice President
CALIFORNIA WATER SERVICE COMPANY
1720 N. First Street
San Jose, CA 95112
(408) 367-8200
tsmegal@calwater.com

ATTACHMENT 1

DESCRIPTIONS AND QUALIFICATIONS OF APPLICANTS

I. CALIFORNIA-AMERICAN WATER COMPANY

A. Description

In compliance with Rule 2.1(a) and Rule 2.2, Applicant states that its exact legal name is California-American Water Company. Applicant is a California corporation. A copy of the Applicant's Restated Articles of Incorporation has been filed with the Public Utilities Commission in connection with Application 02-02-030, and reference is hereby made thereto. There have been subsequent changes in the Articles of Incorporation.

Applicant's principal place of business is 1033 B Avenue, Suite 200, Coronado CA, 92118. Applicant is presently engaged in the business of the supply and distribution of water for domestic and industrial purposes in many localities in the State of California. This application relates to all areas served including Sacramento, Placer, Sonoma, Monterey, Ventura, Los Angeles and San Diego Counties.

B. Contact Information

In compliance with Rule 2.1(b), correspondence and communication concerning the Application:

Should be directed to: David P. Stephenson Director of Rates & Planning California-American Water Company 4701 Beloit Drive Sacramento, CA 95838 Phone: (916)-568-4222 dstephen@amwater.com	With a copy to: Robert G. MacLean President California-American Water Company 1033 B Avenue, Suite 200 Coronado, CA 92118 Phone: (619) 435-7401 robert.maclean@amwater.com
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II. CALIFORNIA WATER SERVICE COMPANY

A. Description

In compliance with Rule 2.1(a) and Rule 2.2, Applicant states that its exact legal name is California Water Service Company. Applicant is a California corporation. A copy of the Applicant's Restated Articles of Incorporation has been filed with the Public Utilities Commission in connection with Application ("A.") 50350 and with A.96-12-029, and reference is hereby made thereto. There have been no subsequent changes in the Articles of Incorporation.

Applicant's principal place of business is 1720 North First Street, San Jose, CA 95112. Applicant is presently engaged in the business of the supply and distribution of water for domestic and industrial purposes in many localities in the State of California. This Application relates to all areas served (except the Grand Oaks service area) including service in Alameda, Butte, Fresno, Glenn, Kern, Lake, Los Angeles, Marin, Monterey, San Joaquin, San Mateo, Santa Clara, Solano, Sonoma, Tulare, Ventura, and Yuba Counties.

B. Contact Information

In compliance with Rule 2.1(b), correspondence and communication concerning the Application:

<p>Should be directed to: Darin Duncan Manager of Rates California Water Service Company 1720 North First Street San Jose, CA 95112 Phone: (408) 367-8200 Email: dduncan@calwater.com</p>	<p>With a copy to: Thomas F. Smegal Vice President, Regulatory Matters and Corporate Relations California Water Service Company 1720 North First Street San Jose, CA 95112 Phone: (408) 367-8200 Email: tsmegal@calwater.com</p>
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III. GOLDEN STATE WATER COMPANY

A. Description

In compliance with Rule 2.1(a) and Rule 2.2, Applicant states that its exact legal name is Golden State Water Company. Applicant is a California corporation. A copy of the Applicant's Restated Articles of Incorporation has most recently been filed with the Public Utilities Commission in connection with Application ("A.") 10-01-009 and reference is hereby made thereto. There have been no subsequent changes in the Articles of Incorporation.

Applicant's principal place of business is 630 East Foothill Boulevard San Dimas, California 91773. Applicant is a public utility rendering water service in various areas in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara and Ventura and electric service in the vicinity of Big Bear Lake in San Bernardino County.

B. Contact Information

In compliance with Rule 2.1(b), correspondence and communication concerning the Application:

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<p>Should be directed to: John Garon Regulatory Affairs Manager Golden State Water Company 630 East Foothill Boulevard San Dimas, California 91773 Phone: (909) 394-3600, Ext. 679 jgaron@gswatwer.com</p>	<p>With a copy to: KEITH SWITZER Vice President of Regulatory Affairs Golden State Water Company 630 East Foothill Boulevard San Dimas, California 91773 Phone: (909) 394-3600, Ext. 759 KSwitzer@gswater.com</p>
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IV. PARK WATER COMPANY

A. Description

In compliance with Rule 2.1(a) and Rule 2.2, Applicant states that its exact legal name is Park Water Company. Applicant is a California corporation. A copy of the Applicant's Articles of Incorporation has been filed with the Public Utilities Commission as Exhibit D attached to Application 32254 filed on March 10, 1951 and reference is hereby made thereto.

Applicant's principal place of business is 9750 Washburn Road, Downey, CA 90241. Applicant operates a public utility water system in the southeastern and northeastern sections of Los Angeles County.

B. Contact Information

In compliance with Rule 2.1(b), correspondence and communication concerning the Application:

<p>Should be directed to: Edward N. Jackson Director of Revenue Requirements Park Water Company 9750 Washburn Road Downey, CA 90241-7002 Phone: (562) 923-0711 Email: ed@parkwater.com</p>	
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V. APPLE VALLEY RANCHOS WATER COMPANY

A. Description

In compliance with Rule 2.1(a) and Rule 2.2, Applicant states that its exact legal name is Apple Valley Ranchos Water Company. Applicant is a California corporation. A copy of the Applicant's Articles of Incorporation has been filed with the Public Utilities

Commission as Exhibit C attached to the amendment of Application 58520 filed on March 9, 1979 and reference is hereby made thereto.

Applicant's principal place of business is 21760 Ottawa Road, Apple Valley, CA 92307. Applicant operates a public utility water system within and around the Town of Apple Valley in San Bernardino County.

B. Contact Information

In compliance with Rule 2.1(b), correspondence and communication concerning the Application:

<p>Should be directed to: Leigh K. Jordan Executive Vice President, Apple Valley Ranchos Water Company c/o Park Water Company 9750 Washburn Road Downey, CA 90241-7002 Phone: (562) 923-0711 Email: leigh@parkwater.com</p>	
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ATTACHMENT 2

EXCERPTS FROM ACCOUNTING STANDARDS CODIFICATION 980-605-25

August 02, 2010

980 Regulated Operations
605 Revenue Recognition
25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

> Alternative Revenue Programs

980-605-25-1 Traditionally, regulated utilities whose rates are determined based on cost of service invoice their customers by applying approved base rates (designed to recover the utility's **allowable costs** including a return on shareholders' investment) to usage. Some regulators of utilities have also authorized the use of additional, alternative revenue programs. The major alternative revenue programs currently used can generally be segregated into two categories, Type A and Type B.

980-605-25-2 Type A programs adjust billings for the effects of weather abnormalities or broad external factors or to compensate the utility for demand-side management initiatives (for example, no-growth plans and similar conservation efforts). Type B programs provide for additional billings (incentive awards) if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service.

980-605-25-3 Both types of programs enable the utility to adjust rates in the future (usually as a surcharge applied to future billings) in response to past activities or completed events.

980-605-25-4 Once the specific events permitting billing of the additional revenues under Type A and Type B programs have been completed, the regulated utility shall recognize the additional revenues if all of the following conditions are met:

- a. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.
- b. The amount of additional revenues for the period is objectively determinable and is probable of recovery.

- c. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.

> Long-Term Power Sales Contracts

980-605-25-5 In general, **nonutility generators** are not regulated and do not meet the criteria of an entity with regulated operations as provided in paragraph 980-10-15-2. However, since nonutility generators provide many of the same services as entities with regulated operations, the guidance for nonutility generators is included in paragraphs 980-605-25-5 through 25-18. That portion of this Subsection assumes the seller of power under the long-term contract does not meet the criteria for application of this Topic.

980-605-25-6 Nonutility generators provide a significant percentage of new electric generating capacity in the United States. Some of these generating plants are built by users primarily for their own energy needs while others are built specifically to sell power, usually to rate-regulated utilities, under long-term power sales contracts. Those contracts price the power sold under a wide variety of terms and arrangements.

980-605-25-7 The long-term power sales contracts may provide for any of the following:

- a. Stated prices per kilowatt hour that increase, decrease, or remain level over the term of the contract
- b. Formula-based prices per kilowatt hour
- c. Billings that are a combination of stated prices and formula-based prices per kilowatt hour.

980-605-25-8 One example of a combination is a contract that provides for billings pursuant to a stated price schedule but also provides for a payment to be made or received by the nonutility generator at the end of the contract so that total revenue recognized and payments made over the contract term equal the amount computed pursuant to the formula-based pricing arrangement. The differences between payments made and the amount computed under the formula-based pricing arrangement are recorded in an interest-bearing tracker account. In other cases, the cumulative balance in the tracker account at a defined point in the contract life may be amortized to zero through adjustments to subsequent billings. Another example of such a combination is a contract that provides for billings pursuant to a stated price schedule but that provides for a payment to be made by the nonutility generator, if necessary, at the end of the contract so that the total revenue recognized and total amounts received by the nonutility generator over the contract term are limited to the lesser of the amount computed pursuant to the stated price schedule or the formula-based pricing arrangement.

980-605-25-9 Long-term power supply contracts that would qualify for lease accounting pursuant to Topic 840 are outside the scope of this Subtopic.

980-605-25-10 For a discussion of the considerations required to determine whether a long-term power sales contract arrangement contains a lease, see Subtopic 840-10.

>> Contracts Containing Scheduled Price Changes

980-605-25-11 For a power sales contract that contains scheduled price changes a nonutility generator shall recognize as revenue the lesser of the following:

- a. The amount billable under the contract
- b. An amount determined by the kilowatt hours made available during the period multiplied by the estimated average revenue per kilowatt hour over the term of the contract.

980-605-25-12 The determination of the lesser amount shall be made annually based on the cumulative amounts that would have been recognized had each method been consistently applied from the beginning of the contract term.

> > **Contracts Providing for Revenue Determination or Limitation Under Formula-Based Pricing Arrangements**

980-605-25-13 A nonutility generator shall recognize revenue in each period determined under the separate, formula-based pricing arrangement if it determines or limits total revenues billed under the contract (see the preceding two paragraphs). The separate, formula-based pricing arrangement shall not be used to recognize revenue if its only purpose is to establish liquidating damages. The nonutility generator shall recognize a receivable only if the contract requires a payment to the nonutility generator at the end of the contract term and such payment is probable of recovery. A receivable arises when amounts billed are less than the amount computed pursuant to the formula-based pricing arrangement.

> > **Contracts Meeting Definition of Derivative**

980-605-25-14 If a long-term power sales contract meets the definition of a derivative under Topic [815](#), then it would be marked to fair value through earnings, unless designated as a hedging instrument in certain types of hedging relationships. Otherwise, the guidance in this Section would apply. Some long-term power sales contracts that meet the definition of a derivative may qualify for the normal purchases and normal sales scope exception contained in paragraph [815-10-15-17 \(b\)](#), in which case the long-term power sales contract would be accounted for under this Section .

980-605-25-15 Long-term power sales contracts that are accounted for as derivatives may possibly qualify as hedging instruments in **all-in-one hedges**. The guidance in Section [815-10-55](#) may be relevant.

980-605-25-16 For a discussion of issues involved in accounting for derivative contracts held for trading purposes and contracts involved in energy trading and risk management activities, see paragraph [815-10-45-9](#).

> > **Contracts Containing Both Fixed and Variable Pricing Terms**

980-605-25-17 The following addresses a power sales contract that has both fixed and variable-based pricing (based on market prices, actual avoided costs, or formula-based pricing arrangements) terms, where the variable-based pricing does not determine or limit the total billings under the contract. It is limited to variable price arrangements in which the rate is at least equal to expected costs. The guidance only addresses the revenue recognition associated with the energy component of these long-term power sales contracts.

980-605-25-18 Long-term power sales contracts that have both fixed and variable pricing terms shall be bifurcated and accounted for as follows:

- a. The revenue associated with the fixed or scheduled price period of the contract shall be recognized in accordance with paragraphs [980-605-25-11](#) through [25-12](#) (that is, the lesser of the

amount billable under the contract or an amount determined by the kilowatt hours made available during the period multiplied by the estimated average revenue per kilowatt hour over the term of the contract).

- b. The revenue associated with the variable price period of the contract shall be recognized as billed, in accordance with the provisions of the contract for that period.

If the contractual terms during the separate fixed and variable portions of the contract are not representative of the expected market rates at the inception of the contract, the revenue associated with the entire contract shall be recognized in accordance with paragraphs 980-605-25-11 through 25-12.