



**FILED**

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

03/28/12  
04:59 PM

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 10-09-017

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**NOTICE OF EX PARTE COMMUNICATIONS BY  
CALIFORNIA WATER SERVICE COMPANY (U-60-W),  
GOLDEN STATE WATER COMPANY (U-133-W),  
APPLE VALLEY RANCHOS WATER COMPANY (U-346-W),  
AND PARK WATER COMPANY (U-314-W)**

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Pursuant to Article 8 of the Commission's Rules of Practice and Procedure ("Rules"), California Water Service Company (U-60-W), Golden State Water Company (U-133-W), Apple Valley Ranchos Water Company (U-346-W), and Park Water Company (U-314-W) submit the this notice of ex parte communications regarding the above-captioned proceeding.

On Friday, March 23, 2012, Thomas F. Smegal (Vice President, Regulatory Matters and Corporate Relations for California Water Service Company), John Garon (Regulatory Affairs Manager for Golden State Water Company), and Leigh K. Jordan (Executive Vice President for both Apple Valley Ranchos Water Company and for Park Water Company) (collectively, "Applicants") met with two Commissioner Advisors at the offices of the Public Utilities Commission at 505 Van Ness Avenue, San Francisco, CA 94102.

At 10:00 a.m., Applicants met with Steve St. Marie, Advisor to Commissioner Catherine J.K. Sandoval, for approximately 45 minutes. At 11:00 a.m., Applicants met with Marcelo

Poirier, Advisor to Commissioner Mike Florio, for approximately 45 minutes. The meetings were initiated by Applicants, and no written materials were provided.

During the meetings, Mr. Smegal provided the history of the proceeding, explaining that Applicants had worked with the Division of Water and Audits (“DWA”) and the Division of Ratepayer Advocates (“DRA”) before filing the application. The application itself represents a compromise between Applicants and DRA with the intent of reaching a quick resolution. Mr. Smegal emphasized that, in rejecting this compromise, the recently-issued Proposed Decision (“PD”) (released on March 19, 2012) adopts modifications to the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (“WRAM/MCBA”) collection procedures that are actually worse for ratepayers than either of the current proposals by Applicants and DRA.<sup>1</sup>

Mr. Garon pointed out that the PD fails to address key concerns of the parties. Due to the lack of any Commission guidance on the issues raised in the application despite eighteen months of consideration, Cal Water was finally required on February 29, 2012 to delay recognition of \$2.4 million of pretax income, according to Mr. Smegal. Applicants explained that filing the application was an attempt to preempt just such a possibility, and noted that Wall Street financial analysts are closely monitoring the Commission’s level of interest in resolving these matters.

Mr. Jordan and Mr. Smegal also reminded each Advisor that positive net balances in the WRAM/MCBA accounts are a direct result of customer bills in the prior year being much lower than were necessary to generate the adopted revenue requirement for that year. For example, if a 20% WRAM/MCBA balance accrued in a district for the previous year, it means that customer bills in that district were at least 20% lower in that period. Further, if erroneous sales forecasting<sup>2</sup> was a significant contributor to the high balance, those customer bills would likely remain artificially low throughout the rate case period. Applicants explained that the PD’s repeated attempts to cast the issue as one in which Applicants are requesting “rate increases,” as opposed to one in which all parties are attempting to develop a solution to what is a valid technical dilemma, is far from reality. Applicants asserted that, compounding the issue, the PD implies the WRAM/MCBA mechanism has in some respect failed, without acknowledging that it in fact enabled the Commission to convey the appropriate conservation signals to customers, who are saving both water and money.

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<sup>1</sup> During the course of this proceeding, some issues were raised that engendered disputes between Applicants and DRA, however the current positions of the parties are in major respects very similar to one another.

<sup>2</sup> In this context, “erroneous sales forecasting” generally refers to when the sales forecast adopted in a rate case turns out to be significantly different from actual sales. A sales forecast that is higher than actual sales contributes to higher positive balances in the WRAM/MCBA mechanisms.

Applicants explained that the annual amortization “cap” of 7.5% in the PD will lead to much more significant “pancaking” of amortizations (in which the WRAM/MCBA balances from an increasing number of years are amortized at the same time) than the parties’ common proposals. Mr. Smegal stated that, in the case of a difference between forecast sales and actual sales that is greater than 15%, the PD would force customers to pay three surcharges even after rates are adjusted in the next GRC. He said that more of the WRAM/MCBA collection would be collected not from those whose reduced bills caused the balance to accumulate, but from future ratepayers.

Finally, Applicants explained that the PD’s distorted view of the facts, particularly its inexplicable attempt to blame the utilities for large WRAM/MCBA balances, and its inaccurate statement of the Commission’s intentions in authorizing the WRAM/MCBA, should be corrected. Applicants stated that those distortions imply a rejection of the Commission’s clear conservation policies, and may induce later Commissions to conclude that it was a bad idea to aggressively pursue water conservation in compliance with state goals.

Applicants’ representatives urged each Advisor to work to modify the PD to adopt the parties’ common positions on amortization periods and to delete (1) conclusions not based on the record, and (2) misinterpretations of Commission precedent.

Respectfully Submitted,

/s/ THOMAS F. SMEGAL

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