

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Application of California-American Water Company (U210W), California Water Service Company (U60W), Golden State Water Company (U133W), Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) 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.

A.10-09-017
(Filed September 20, 2010)

**DIVISION OF RATEPAYER ADVOCATES' DISPUTED ISSUES
OF MATERIAL FACT REQUIRING EVIDENTIARY HEARING
FOR THE MONTEREY DISTRICT**

Pursuant to the Assigned Commissioner and Administrative Law Judge's Ruling and Scoping Memo ("Scoping Memo"), direction provided by Administrative Law Judge ("ALJ") Walwyn on Monday June 13, 2011, and the extension from ALJ Walwyn given by email on June 13, 2011, Division of Ratepayer Advocates (DRA) respectfully files this list of disputed issues of material fact requiring evidentiary hearing for the Monterey District.

The Scoping Memo limits the scope for this portion of the proceeding to addressing the amortization period for 2010 and 2011 balances. On Monday, June 13, 2011, ALJ Walwyn stated that Cal Am's proposal for a 35 percent surcharge was also included in the scope.

The disputed issues of material fact requiring evidentiary hearing for the Monterey District, within the scope of this proceeding, are listed below.

- 1) What amortization schedule should the Commission adopt to address WRAM undercollections in 2010 and 2011? DRA recommends that the Commission should continue to use the schedule established in Standard Practice U-27-W to amortize both the 2010 and 2011 WRAM/MCBA balances in the Monterey District. Under this approach the balances would be amortized over a 36 months period. In making this recommendation, DRA evaluated how customer bills would be affected by modifying the amortization period for the average residential customer to 60 months (5 years) and compared this to either using the 36 month amortization specified in the Standard Practice U-27-W, or with Cal Am's proposed amortization period of 18 months. In considering this issue, the Commission should be mindful of:
 - a. Selecting an amortization approach and schedule that will enable Cal Am to recover its under-collected WRAM/MCBA revenue for both 2010 and 2011. Cal Am has two proposals for calculating the surcharge – its 2010 proposal is to use the adopted increasing block rate design from the GRC to calculate a surcharge on the quantity rate, and its 2011 proposal uses a 35 percent surcharge on the quantity rate for each block of the tiered rate design. DRA proposes that the surcharge should be placed on the customers' entire bill, not simply the volumetric portion of the bill to increase the likelihood that Cal Am will recover all of the under-collected revenue while still mitigating rate shock from rapid amortization of WRAM/MCBA balances.
 - b. The type of surcharge adopted by the Commission should not induce unacceptable "rate shock" but rather should be graduated to ensure that rate increases are moderate and reasonable to help ensure that all customers continue to have access to an adequate supply of healthful

water at an affordable cost consistent with Section 739.8 of the Pub. Util. Code.

- c. Customer confusion – given the large number of surcharges and rate increases and special projects Cal Am has in pending proceedings with the Commission, customer confusion is likely. To minimize customer confusion, the Commission should not change its existing amortization procedures for the Monterey District.
- 2) Is Cal Am’s proposal for a 35 percent surcharge to amortize the 2011 WRAM/MCBA balance reasonable? DRA recommends that the Commission reject Cal Am’s proposal for a 35 percent surcharge to be implemented immediately for the Monterey District to avoid large rate shock. Instead, the Commission should use the same approach for amortizing both the 2010 and 2011 WRAM/MCBA balances, consistent with the Standard Practice U-27-W and the GRC decision adopting the WRAM/MCBA for the Monterey District (Decision 09-07-021).
- 3) When should the larger issue of amortization of Cal Am’s WRAM/MCBA balances for the Monterey District be addressed? DRA recommends that the longer-term options for the Monterey District should be addressed in Phase 3 of the Coastal Water Project, in coordination with California American Water’s next GRC, which is due to be filed July 1, 2013 for test year 2015.

As envisioned in Judge Walwyn’s earlier ruling on the scope of this proceeding, this phase of this case is limited to the selection of the length of the amortization periods Cal Am will have to recover its 2010 and 2011 WRAM/MCBA balances in Monterey. DRA is concerned that Cal Am’s 2010 proposal, which relies heavily on collecting Cal Am’s revenue shortfalls from its customers that consume large volumes of water, may not allow it to fully recover its unamortized WRAM/MCBA balance if larger users significantly reduce their consumption in response to the surcharge increases. Moreover,

DRA is concerned that if Cal Am's 35% 2011 WRAM/MCBA balance is amortized in a single year, (as Cal Am has requested) customer rates will escalate so rapidly as to become unaffordable for a significant segment of the Monterey service district population.

While disputed issues of material fact do exist between DRA and Cal Am, because of resource constraints it is preferable to simply address this dispute via briefs rather than through evidentiary hearings. If Judge Walwyn believes that hearings are necessary, DRA would be able to submit written testimony in mid-July.

Additionally, based on the information presented in the Scoping Memo regarding the lack of disclosure by the Applicants of the possible need to restate their 2010 financial statements in their Security and Exchange Commission's (SEC) 10-K annual reports for 2010 and 10-Q First Quarter 2011, there is no urgent need to shorten the amortization periods for the WRAM/MCBA balances for the Monterey District. In fact, Cal Am's parent company, American Water, recently increased its quarterly dividend payment by 23 cents per share.

Respectfully submitted,

/s/ JASON ZELLER

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