

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



**FILED**  
04-08-11  
04:59 PM

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' RECOMMENDATIONS  
TO ADDRESS UNDERCOLLECTIONS IN THE  
WATER REVENUE ADJUSTMENT MECHANISM  
AND MODIFIED COST BALANCING ACCOUNT BALANCES  
IN CALIFORNIA AMERICAN WATER COMPANY'S  
MONTEREY DISTRICT**

**I. BACKGROUND/INTRODUCTION**

During the February 17, 2011 Prehearing Conference for A.10-09-017, ALJ Walwyn expressed concern regarding the magnitude of the under-collection in the 2010 WRAM/MCBA balance in Cal Am's Monterey District<sup>1</sup> and ordered Cal Am and DRA to look at possible measures to address this under-collection going forward as under

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<sup>1</sup> Prehearing Transcript p. 93 - 98

collections continue to accumulate during 2011.<sup>2</sup> In its response to this ruling, DRA proposed a number of options to address the under-collection and requested a 30 day extension, until March 22, 2011, to develop a proposal.<sup>3</sup> In its response to the ruling, Cal Am proposed a 35% surcharge on the quantity rates for its Monterey system customers.<sup>4</sup>

On February 28, 2011, ALJ Walwyn issued a ruling granting a 30 day extension of time for proposals to address the under-collection in the WRAM/MCBA in the Monterey district.<sup>5</sup> The ruling directed DRA and Cal Am to file, separately or jointly, a recommendation or recommendations to address the continuing large undercollections in the WRAM/MCBA balances in the Monterey District and that the recommendation(s) must include an assessment of all options cited by DRA in its February 22, 2011 filing. On March 17, ALJ Walwyn issued a ruling modifying the February 28, 2011 ruling requiring Cal Am and DRA to address in the scheduled March 22, 2011 filing whether there is a need for further customer notice and, if so, what the notice should contain.<sup>6</sup> On March 22, 2011, DRA and Cal Am requested an extension until April 8, 2011 to file recommendations for addressing the WRAM/MCBA under-collections in the Monterey district. ALJ Walwyn granted the request for extension on March 22, 2011 via e-mail.

Some of DRA's recommendations presented below would modify portions of the Settlement Agreement between DRA and Cal Am on Conservation Rate Design Issues implementing a Pilot Program on WRAM/MCBA and rate design "Settlement."<sup>7</sup> The Settlement was signed by DRA and Cal Am and adopted by the Commission in Decision 09-07-021. The Settlement provides for such modifications in section III Pilot Program,

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<sup>2</sup> PHC Transcript, p. 99, line 6 – 9, p. 122, line 1 – 4.

<sup>3</sup> Compliance Filing of the Division of Ratepayer Advocates, filed 2/22/2011

<sup>4</sup> Compliance Filing of California-American Water Company (U-210-W), filed 2/22/2011

<sup>5</sup> Administrative Law Judge's Ruling granting a 30 day extension of time for proposal(s) to address the continuing large Water Revenue Adjustment Mechanism/Modified Cost Balancing Account undercollections in California-American Water Company's Monterey District and requiring California-American water company to provide special customer notice of this application, February 28, 2011.

<sup>6</sup> Administrative Law Judge's Ruling Modifying February 28, 2011 Ruling. Filed 3/17/2011.

<sup>7</sup> D.09-07-021, Appendix A – Settlement Agreement Between the Division of Ratepayer Advocates and  
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A. Overview: section 3 which states:

3. The Parties agree that if implementation of the proposed Pilot Program results in a disparate impact on ratepayers or shareholders, the Parties will meet to discuss adjustments to the proposed Pilot Program.

DRA's proposal addresses the potential disparate impact on ratepayers that has arisen from the undercollections in the Monterey District. DRA also submits this proposal in compliance with Judge Walwyn's directions at the Prehearing Conference on February 17, 2011, the February 28, 2011 ALJ ruling,<sup>8</sup> the March 17, 2011 Administrative Law Judge's Ruling Modifying February 28, 2011 Ruling, and the extension granted in ALJ Walwyn's e-mail on March 22, 2011.

Additionally, DRA submits this information pursuant to this Application to modify the same Decision 09-07-021, which was filed by California American Water. Any modification of the earlier settlement agreement should be limited to addressing the under-collection of the WRAM/MCBA.

## II. SUMMARY OF RECOMMENDATIONS

Although recent trends have led to reductions in water use, which is consistent with state water conservation goals and consistent with one of the goals of the WRAM/MCBA mechanism<sup>2</sup>, usage reductions in Cal Am's Monterey District in 2010 generated even greater under collections of revenue authorized to be collected through the WRAM/MCBA mechanism. This trend is likely to continue during 2011. The existing WRAM/MCBA mechanism has disproportionately affected Cal Am's ratepayers

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California-American Water Company on Conservation Rate Design Issues.

<sup>8</sup> Administrative Law Judge's Ruling granting a 30 day extension of time for proposal(s) to address the continuing large Water Revenue Adjustment Mechanism/Modified Cost Balancing Account undercollections in California-American Water Company's Monterey District and requiring California-American water company to provide special customer notice of this application, February 28, 2011.

<sup>2</sup> D.09-07-021, Appendix A, Settlement Agreement Between the Division of Ratepayer Advocates and California-American Water Company on Conservation Rate Design Issues, Section XIV. A.3.

compared to its shareholders. The WRAM/MCBA mechanism is not operating in the symmetric or equitable manner that the Commission and settling parties envisioned.<sup>10</sup> Additionally, the mechanism goes well beyond a key goal of the mechanism which was to remove any disincentive for Cal Am to implement conservation rates and conservation programs; the mechanism also captures the effects of the economic downturn and does not properly preserve the balance of risk between ratepayers and shareholders. In the face of customer complaints, and concerns about the extremely large surcharges required to amortize balances in the WRAM/MCBA mechanism, Cal Am and customers are now in a situation where the balance in the WRAM would be diminished if more water was consumed. This raises the question of whether a WRAM/MCBA mechanism is needed or even counterproductive in the current situation or in the future.

In DRA's filing on February 22, 2011, DRA proposed a number of options as potential solutions to the continuing WRAM/MCBA undercollections in Monterey. Pursuant to ALJ Walwyn's February 28<sup>th</sup> ruling, a discussion of each option is below, but DRA prefers the following Commission action to halt further undercollections for 2011:

Modify the WRAM/MCBA and rate design Pilot Program adopted in Decision 09-07-021 by stopping the WRAM/MCBA and replacing it with a "Monterey-style WRAM"<sup>11</sup> together with the previously-existing purchased

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<sup>10</sup> Decision 09-07-021, Ordering Paragraph 28 adopting "Settlement Agreement Between the Division of Ratepayer Advocates and California-American Water Company on Conservation Rate Design Issues," Section III.A.3.

<sup>11</sup>The Monterey-style WRAM is not a full revenue decoupling mechanism as it corrects for the difference between revenue under conservation rates and revenue that would have been collected under uniform rates. The revenue portion covered both the service charge and the quantity rates. There is, however, an on-going disagreement between Cal Am and DRA on the definition of the standard rates and the inclusion of billing adjustments in the actual revenue. The Commission is addressing this issue in the current Cal Am GRC A.10-07-007. DRA notes that although DRA and Cal Am differ on the Monterey-style WRAM calculation method, the dollar amount of the difference between Cal Am and DRA is a smaller magnitude relative to the extremely high level of undercollections Cal Am is currently experiencing in the Monterey District. For example, the difference between Cal Am and DRA's 2008 Monterey-WRAM account balances is approximately \$1.7 million. During 2007 and 2008, DRA calculates that there was an over-collection in the Monterey-style WRAM. DRA estimates that no surcharge is needed at this time for Cal Am to implement the Monterey-style WRAM going forward during 2011, based on this historical over-collection. The proposed Monterey style WRAM will cover only the quantity rates and will true up actual quantity revenue to the revenue that Cal Am would have collected using a single quantity rate under an equivalent uniform rate design. The MCBA will be replaced by the previously existing Incremental Cost  
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power cost balancing account. The Monterey-style WRAM was in effect in the Monterey district until February 2010, and prior to that it had withstood the test of time as an effective mechanism at keeping Cal Am's usage below regulatory limits even with a five tier increasing block rate design.<sup>12</sup>

### III. COORDINATION AND OVERLAP WITH OTHER PROCEEDINGS

DRA notes that any review of WRAM/MCBA in this proceeding should be coordinated with rate design issues, which are properly addressed in Phase III of the Coastal Water Project ("CWP") proceeding A.04-09-019. DRA is concerned about that the undercollections in the WRAM/MCBA and overall Monterey rate design issues will be reviewed in three separate uncoordinated proceedings because Cal Am recently filed a motion in its current GRC proceeding (Application 10-07-007) to file supplemental testimony on rate design and WRAM/MCBA changes in Monterey.<sup>13</sup> DRA filed a response to Cal Am's filing opposing its request to submit supplemental rate design testimony. A ruling on Cal Am's motion is still pending.

Additionally, DRA notes that Cal Am and other parties entered into a settlement related to the rate design and WRAM/MCBA pilot program in the CWP proceeding (A.04-09-019), and the Commission adopted that settlement in D.10-12-016. The adopted settlement and decision state that Cal Am shall utilize its current rate model to determine rate design for the regional desalination plant for the Monterey District and that this will be addressed in Phase III of A.04-09-019. It further states that the cost of

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Balancing Account for purchased power.

<sup>12</sup> The Monterey-style WRAM should function in accordance with DRA's recommendations from its audit report, submitted in response to Cal Am's Advice Letter 735 and in DRA's audit report associated with Special Request 14 in the Cal Am GRC (A.10-07-007).

<sup>13</sup> In Cal Am's GRC Application 10-07-007, Cal Am filed a motion after DRA had already filed testimony to include rate design for the Monterey District in the GRC. DRA responded opposing the motion, and argued that it would be inappropriate to address the Monterey rate design in the GRC since the Commission already adopted a Decision requiring rate design to be addressed in Phase III of the Coastal Water Project. Cal Am replied to DRA's response and admitted that rate design and cost allocation have to be addressed in Phase III of the Coastal Water Project, although Cal Am claimed that the decision only referred to rate design related to the CWP. As of this filing, there has not been a Ruling on this motion in the GRC.

the desalinated water purchased under the Water Purchase Agreement (WPA) from Marina Coast Water District (MCWD) and the Monterey County Water Resources Agency (MCWRA) will be recovered in rates by means of the MCBA. So, if the Commission is considering any changes that would affect the current WRAM/MCBA revenue decoupling mechanism for 2015 or beyond<sup>14</sup>, the Commission should coordinate any changes that would be made to the WRAM/MCBA in this proceeding with Phase III of the Coastal Water Project.

#### **IV. SCOPE OF DRA RECOMMENDATIONS**

DRA presents recommendations below to reduce the potential for a significant WRAM/MCBA undercollection for 2011. Due to the limited time for discovery, DRA's limited resources, and the immediate nature of the problem with the Monterey District undercollections, DRA offers the recommendations below as reasonable solutions for the Commission to implement on an immediate and temporary basis for the duration of 2011. However, this problem will not disappear on January 1, 2012 and the Commission should continue these temporary measures until it is able to resolve the issue with a more permanent solution. DRA's recommendations in this filing are limited to the Monterey District and to the duration of 2011.<sup>15</sup>

In order for DRA to make comprehensive recommendations on a solution to the WRAM/MCBA mechanism undercollections that would apply to 2012 and onwards and to allow DRA to prepare recommendations to address under-collections in the WRAM/MCBA mechanisms for other districts and utilities, the Commission needs to allow for sufficient time for a thorough review of the issues in play. Among the factors that must be considered are DRA's need to properly staff this project, including the possible need to hire a consultant, to conduct discovery, write testimony, and participate

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<sup>14</sup> The regional Desalination Project is currently expected to be operational in 2015

<sup>15</sup> DRA notes, however, that there are continuing large under-collections in other districts that are approaching the same level of under-collection observed in the Monterey district. For example, in Cal Am's Larkfield district, the under-collection in Advice Letter 888, which Cal Am filed on April 7, and has now withdrawn, is 32.98% of the revenue requirement. The Commission should address these

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in evidentiary hearings and briefs. DRA anticipates that a reasonable procedural schedule may emerge in light of all the information to be submitted by April 15 by all the Class A water utilities included in A.10-09-017.

As noted, an procedural schedule would be required for the Commission to develop a longer-term solution for the problem of the WRAM/MCBA under collection in Monterey and in other districts and utilities. Should the Commission wish to consider these broader issues, DRA recommends the ALJ schedule a prehearing conference to discuss scope, scheduling and other procedural matters. DRA also recommends that the Commission consider addressing these broader issues in the existing Conservation OII 07-01-022 as a new phase, or in a subsequent proceeding and the Commission should include scoping workshops early in the procedural schedule to determine the issues that should be addressed. For the Monterey district, the Commission's review of this longer-term solution should be coordinated with Phase III of the Coastal Water Project. DRA's recommendation here is limited to addressing the revenue shortfall for 2011 for the Monterey district.

**V. THIS FILING IS LIMITED TO THE DATA REQUESTED BY JUDGE WALWYN**

DRA only addresses the WRAM/MCBA balances on a going-forward basis in this filing as directed by ALJ Walwyn. The settlement agreement between Cal Am and DRA on conservation and rate design issues, adopted by D.09-07-021, requires Cal Am to submit an information-only written report on the amounts in the WRAM and MCBA accounts by March 31 of each year. If the net balance of these two accounts exceeds 2.5% of the total recorded revenue requirement of the prior year, Cal Am will file an advice letter within 30 days to collect any under collection or refund any over collection. The advice letter is a Tier 1 filing.

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growing under-collections as soon as possible.

Thus, DRA expects to address the 2010 balances in the WRAM/MCBA for the Monterey District in a Tier 1 advice letter that will be filed by Cal Am 30 days after its March 31 report.

DRA's filing does not include recommendations on level of surcharge that would be required to resolve balances in the WRAM/MCBA for 2010 because such recommendations are outside the scope of this filing. However, DRA has issued several data request questions related to the 2010 balances, and those questions and Cal Am's responses are attached in Appendix A.

In addition, during the first few months of 2011, it is likely that Cal Am has incurred substantial undercollections in the WRAM/MCBA. Addressing these balances is outside of the scope of this filing, but it is an outstanding issue that the Commission must address.

## **VI. DISCUSSION**

In its Monterey district, Cal Am has experienced a significant reduction in usage and corresponding reductions in revenue. The data request responses provided by Cal Am show that the customer response has not been uniform across customer classes (see Appendix A). The bulk of the undercollection is attributable to consumption reductions by residential customers, followed by commercial, public authority and multi-residential customers. Revenue from residential customers' actual usage was down 18% compared with adopted, commercial revenues were down 7% and public authority, 53%. DRA observed some anomalies in the data provided by Cal Am and DRA issued data requests to request further information and Cal Am has responded to those data requests. DRA's data requests and Cal Am's responses are attached in Appendix A.

Given that the conservation response has not been uniform across customer classes, cross-subsidies across customer classes could occur through the operation of the WRAM/MCBA. In developing a longer-term solution to address the under-collections in the Monterey WRAM/MCBA, the Commission should consider this issue.

A Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows Cal Am to true-up the revenue it

actually recovered under conservation rate design with the revenue Cal Am would have collected if it had an equivalent uniform rate design at actual sales levels. Cal Am had a Monterey-style WRAM in effect in the Monterey District until February 2010. Given the huge undercollections in the WRAM/MCBA and the disparate impact on customers that has resulted over the past year since the WRAM/MCBA was implemented, DRA recommends returning to this prior, Monterey-style WRAM.

The Monterey style WRAM would result in a less of a “rate shock” for customers relative to the WRAM/MCBA while maintaining an incentive to customers to conserve because the Monterey-style WRAM does not adjust for differences in quantities sold. It does not allow Cal Am to true-up to the total adopted revenue requirement collected through the quantity charge; and yet it maintains tiered rates and makes the company whole for revenues it would have collected under an equivalent uniform rate design. The Monterey-style WRAM would be effective in closing the revenue gap between actual revenues and revenues tracked in the Monterey-style WRAM. The Monterey-style WRAM would be more equitable to ratepayers because of the surcharge required to implement it would be lower than what Cal Am has proposed. In addition, the Commission can be confident that based on the approximately 15 years of history where Cal Am used the Monterey-style WRAM, this type of WRAM will allow Cal Am to ensure that its customers’ consumption remains below regulatory limits while still giving Cal Am an incentive to control its expenses.

A WRAM/MCBA is not necessary in the Monterey district. While in the long term, conservation should not lead to higher bills, Monterey is unique in that further water conservation is not going to lead to long-term reductions in costs. Partly this is attributable to the recently approved the Regional Desalination Project, which has significant fixed costs that Cal Am ratepayers will be required to pay regardless of how much water they conserve. Moreover, in light of the recently established moratorium on new customer connections, Cal Am will not have any new customers in the near future to share these additional costs. Further, Cal Am’s Monterey customers will also be subject to rate increases associated with other facilities in the Monterey vicinity such as the Sand

City Desalination plant, the San Clemente Dam seismic retrofit project, the MPWD user fee, the 2010 balances in the WRAM/MCBA, the surcharge for the 2009, 2008, and 2007 and pre-2007 balances in the Monterey-WRAM, and interim true-up balancing accounts.

Unfortunately, because of the aforementioned unique circumstances in Monterey, Cal Am's Monterey ratepayers are being disproportionately impacted by the WRAM/MCBA. It is clear from the data provided by ALJ Walwyn at the February 17 prehearing conference that the economic downturn has significantly affected the Monterey County. "Shut off for non-pay" service orders rose from 387 in 2007 to 2,673 in 2009. Additionally, low-income program participation has increased from 2.77% of the total customers served to 3.51% of the total customers served, and the number of foreclosures increased dramatically in 2008 and 2009 relative to 2007. The effect of these economic changes is being captured in the WRAM/MCBA. This type of protection goes well beyond a key goal of the WRAM/MCBA pilot program -- to remove any disincentive for Cal Am to implement conservation rates and conservation programs.<sup>16</sup> The Commission should preserve the balance of risk between ratepayers and shareholders by ensuring any revenue decoupling or revenue adjustment mechanism properly apportions risk between ratepayers and shareholders. Unfortunately the existing WRAM/MCBA mechanism fails to meet that test

The Commission should reject Cal Am's proposed 35% surcharge. A 35% surcharge in itself would be a huge increase that will affect the affordability of water contrary to the provisions of Public Utility Code Section 739.8 (a) and would reduce Cal Am's customers' ability to plan and budget for water bills. However, it is important to note that the 35% surcharge would be on top of a series of other surcharges and the GRC rate increase. In particular, Cal Am is requesting nearly a 27% GRC rate increase for 2012, it is requesting a surcharge to recover approximately \$75 million in balancing and memorandum accounts in the Monterey district including the 2009, 2008, 2007 and prior

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<sup>16</sup> D.09-07-021, Appendix A, Settlement Agreement Between the Division of Ratepayer Advocates and California-American Water Company on Conservation Rate Design Issues, Section XIV. A.1.

balances in the Monterey-style WRAM balancing account. In addition the problem of the 2010 WRAM/MCBA under-collections remains, in addition to other costs that will affect customers during the remainder of 2011 and 2012. All together, these cost increases could more than double present rates.

**VII. ANALYSIS OF ALTERNATIVES:**

The table below lists the options outlined in ALJ Walwyn’s ruling for DRA to address in this filing. The table compares each alternative to the base case of doing nothing. While a detailed data analysis is preferable to this qualitative approach, due to limited time and resources, DRA uses this qualitative approach for the limited scope of this filing.

**Table 2  
Surcharge**

		ALTERNATIVES		CRITERIA	
				Minimize "rate shock"	Effective in terms closing the gap between actual and adopted revenue
1	Surcharge	On the Bill		worse than do nothing ("DN")	better than DN
		On the Quantity Rate (Cal Am's proposal)		worse than DN	worse or equal to DN
		On the Service Charge		worse than DN	better or equal to DN
2	Discontinue or pause the WRAM/MCBA and rate design Pilot Program			better than DN	better than DN
3	Discontinue or pause the WRAM/MCBA	No WRAM		better than DN	better than DN
		Monterey-style WRAM (DRA's proposal)		better than DN	better than DN
4	Modify the sales forecast for 2011 (not recommended)			worse than DN	better than DN
5	Share the undercollection between ratepayers and shareholders			better than DN	better than DN
6 448447	Other modifications to the WRAM/MCBA mechanism	Adjusting for other VC (taxes, chemicals)		Too complex/data intensive to evaluate these other modifications to the WRAM/MCBA mechanism in the time available	
		Adjusting for number of customers			

In each of the surcharge alternatives, (none of which DRA supports) the surcharge would aggravate “rate shock” since customers would pay the surcharge upfront (customers would pay higher amounts for a shorter period). A surcharge on the bill would have the negative effect of putting the burden of the surcharge on all customers, rather than just on customers who do not conserve. However, one of the advantages of a surcharge on the bill rather than on the quantity rate is that most of the potential for usage reductions are in the highest tiers, and this means the surcharge revenue would be more likely to close the gap. Additionally, customers have expressed concern that for non-residential allotments that they may not be equitable, so a surcharge on the bill will apply to all customers equally and would not exacerbate any inequities in the current rate design. If the Commission authorizes Cal Am to implement any surcharges Cal Am implements to recover WRAM/MCBA balances should be separately identified as a separate line-item on the bill.

**A. Discontinue or Pause the WRAM/MCBA and Rate Design Pilot Program**

If the Commission discontinues the WRAM/MCBA, and reverts to the former rate design, this would reduce “rate shock” since ratepayers would not have to pay any surcharges to cover revenue reductions due to lower sales. Discontinuing WRAM/MCBA would also close the gap between actual and adopted revenue. However, DRA rejects this alternative because the Commission adopted a settlement agreement in D.10-12-016 requiring Cal Am to utilize its current rate model to determine rate design for the regional desalination plant for the Monterey District and that this will be addressed in Phase III of A.04-09-019.<sup>17</sup>

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<sup>17</sup> See a complete discussion in the “Response of the Division of Ratepayer Advocates to Motion for Leave to Provide Supplemental Testimony on Rate Design for the Monterey County District.” Filed 3/25/2011, A.10-07-007.

**B. Discontinue or Pause the WRAM/MCBA Only Without Making Any Changes to The Current Rate Designs**

Cal Am already has a disincentive to increase sales in its Monterey District – the threat of fines from the State Water Resources Control Board (SWRCB) for violating pumping restrictions on the Carmel River, and incurring Replenishment Fees as a result of the Seaside Groundwater Basin Adjudication for going over its groundwater allocation, and a moratorium on new service connections. Cal Am has successfully managed its system for years under these types of constraints without a WRAM/MCBA revenue decoupling mechanism. It was not the intent of Parties to put in place a mechanism that would shield Cal Am from normal weather-related or business risk, but that is what has happened. DRA believes this experiment has failed, and the Commission should revert to the former Monterey-style WRAM for the rest of 2011, while it considers longer term options.

**C. Modify the Sales Forecast for 2011**

Cal Am’s reduced sales do not justify an adjustment to the sales forecast during 2011, a 35% surcharge or a WRAM/MCBA mechanism. In Cal Am’s most recent GRC, in issuing D.09-07-021, Appendix B, p. 8, the Commission adopted the forecasts proposed by Cal Am itself for proposed sales and services for the rate case cycle 2009 through 2011.

**D. Share the Undercollection Between Ratepayers and Shareholders**

Regarding the option to share revenues between ratepayers and shareholders, DRA made a similar argument that the undercollection should be split between ratepayers and shareholders for California Water Service Company (A.09-07-001). In response, Cal Water argued that the current “WRAM/MCBA mechanism provided symmetry: adjustments to revenues and expenses follow similar logic whether revenues are above or below the adopted level.” Cal Water also argued that sharing the undercollection and not the overcollection would be focusing only on the short term situation when the actual

revenues are below the adopted level.<sup>18</sup> DRA does not agree. In Monterey, the symmetry is unlikely because of legal and regulatory constraints on the water production. Cal Water also argued that “limiting the WRAM/MCBA recovery due to decreases in revenues would undo a key rationale for a revenue decoupling mechanism, which is removing the incentive to promote sales.” However, given the size of the undercollected balances in the WRAM/MCBA mechanism in Monterey is not operating as intended and is disproportionately impacting ratepayers.

Additionally, it is very difficult to isolate the proportion of the WRAM/MCBA undercollection that is attributable to conservation and the proportion that is accounted for by other factors such as the economy. A modified WRAM/MCBA mechanism that is based on a sharing mechanism that incorporated such highly complex calculations regarding the particularized effect of conservation and the economic downturn would be very difficult to design and implement.

#### **E. Other Modifications to the WRAM/MCBA Mechanism**

Regarding the other options for modifying the WRAM/MCBA, due to the limited time and resources available in developing this immediate and temporary solution for the Monterey district, DRA does not recommend other modifications to the WRAM/MCBA accounts at this time but would look forward to the possibility of developing them further in an expanded application, investigation or rulemaking.

### **VIII. CUSTOMER NOTICE**

Cal Am is going forward with customer notice of its application proposals in this proceeding. Those proposals are related to reducing the amount of time over which the WRAM/MCBA net balances are amortized. DRA has brought to Cal Am’s attention that its newspaper notice in the Monterey district was not legible. DRA recommends that Cal Am contact the newspaper and reprint the notice.

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<sup>18</sup> Rebuttal Testimony of David Morse A.09-07-001

Cal Am's proposal for a 35% surcharge to recover balances going forward would require additional customer notice. This 35% supplemental surcharge would be in addition to the approximately 30% surcharge for the under-collected 2010 balances that Cal Am will be filing by advice letter shortly.

Respectfully submitted,

/s/ JASON ZELLER

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Jason Zeller

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: 415-703-4673  
[jjz@cpuc.ca.gov](mailto:jjz@cpuc.ca.gov)

April 8, 2011