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

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)

**COMPLIANCE FILING OF CALIFORNIA-AMERICAN WATER
(U210W)**

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Dated: April 8, 2011

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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

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COMPLIANCE FILING OF CALIFORNIA-AMERICAN WATER COMPANY (U210W)

California-American Water Company (U210W) (“California American Water”) respectfully submits this Compliance Filing in response to the directive of Administrative Law Judge (ALJ) Christine Walwyn to respond to various proposals to address the under-collection of the Monterey Water Revenue Adjustment Mechanism (WRAM) for the Monterey County District.¹ Below, California American Water provides its assessment of the options cited by the Division of Ratepayer Advocates (“DRA”) to address the under-collection in its February 22, 2011 filing.

¹ See Prehearing Transcript pp. 93 – 98; Ruling of Administrative Law Judge Christine Walwyn, dated February 28, 2011 (granting a 30 day extension of time for proposals to address the under-collection in the WRAM/MCBA in the Monterey District). ALJ Walwyn granted a requested extension on March 22, 2011 via e-mail so that California American Water and DRA had until April 8, 2011 to file recommendations for addressing the WRAM/MCBA under-collections in the Monterey district. The purpose of California American Water’s recommended surcharge is to address the sizeable under-collection of revenues in California American Water’s Monterey County District since the adoption of Decision (“D.”) 09-07-021.

1. A surcharge to reduce the under-recovery going forward

- i. On the bill**
- ii. On the quantity rate**
- iii. On the service charge**

California American Water maintains its position that implementing a 35% surcharge to quantity rates, as submitted in its February 22, 2011 compliance filing, is the preferable mechanism. California American Water believes this is the fastest, most effective way to address the under-collection issue in Monterey without modification to the rate design settlement authorized in D.09-07-021. California American Water agreed to the comprehensive rate design changes adopted as part of a settlement agreement, including the use of the WRAM/MCBA, as a total package and not a package comprised of individual agreements that could be parsed and changed without effecting the settlement as a whole.

2. Discontinue or pause the WRAM/MCBA and rate design Pilot Program for the Monterey District to prevent further under-collections in the WRAM/MCBA and revert the WRAM/MCBA and/or rate design to the previously adopted Monterey-style WRAM and rate design.

California American Water is opposed to this option for several reasons. First, the new rate design completely replaced the prior rate design in California American Water's billing system and took seven months to implement. It is impossible to revert back to the old design as it would take an equal amount of time and require a significant cost. Second, California American Water agreed to the new rate design because it was intended to send stronger conservation signals due to strict regulations on water supply, including the Seaside Basin adjudication and the State Water Resources Control Board's mandatory reductions to withdrawal from the Carmel River. Indeed, the current rate design has helped reduce consumption so that the Monterey County District can meet government-mandated limitations. Reverting back to the prior rate design could cause production to increase, thereby causing the

Monterey County District to exceed the Court ordered limitations of the Seaside Basin and the SWRCB mandated production limits. This could lead to penalties and/or fines, higher levels of conservation or water rationing for customers. Third, California American Water agreed to the rate design because it included the WRAM/MCBA mechanisms to decouple revenue from usage, an approach promoted in the Commission's own Water Action Plan. As noted in the settlement adopted in D.09-07-021:

The goals of the decoupling mechanisms in the Pilot Program are as follows:

1. Sever the relationship between sales and revenue to remove any disincentive for California American Water to implement conservation rates and conservation programs.
2. Ensure cost savings resulting from conservation are passed on to ratepayers.
3. Reduce overall water consumption by California American Water ratepayers.

To undermine these key facets of the settlement agreement would not only breach the settlement agreement, but would bring harm to California American Water's financial well-being by preventing it from earning a fair return on its investment as recognized by the Commission.

3. Modify the sales forecast for 2011 (this would raise rates and DRA recommends against this option)

California American Water believes implementing a surcharge would be a faster and clearer approach than adjusting the entire rate design and equally effective at reducing the under-collection. Any future changes would also be easier since the mechanism could be adjusted through a revision to the percentage rather than revisions to several individual rates.

4. Develop a mechanism to share the under-collection in the WRAM/MCBA between ratepayers and shareholders so there is no disproportionate impact on either.

There is already a sharing between ratepayers and shareholders taking place in regards to the WRAM/MCBA, as noted below. The WRAM/MCBA was implemented to allow

companies an opportunity to comply with government policies wherein a reduction to consumption through conservation is required. Without the WRAM/MCBA in place, there would be no incentive to reduce customer usage as that would severely impact the earnings of the company. To require California American Water to absorb any part of it would further penalize the Company and prevent any opportunity for it to earn a fair return. California American Water is already incurring revenue impacts by carrying a 2010 balance of \$11.8M on its books at 90-day commercial paper rates that will take three years to recoup under current Commission standards. This is roughly 35% of the quantity revenue California American Water should have received in 2010, but will not fully realize until 2014 or later. California American Water strives to meet a multitude of government restrictions while fulfilling its obligation to serve its customers. California American Water meets these obligations by implementing and managing a complex inverted rate design, providing significant rebates to customers for installing conservation devices, making available water audits to many customers, and continuing to frequently educate and inform customers about water supply and conservation issues. The Commission already is penalizing California American Water through a water penalty/award program for non-revenue water levels above those set by the Commission at already historically low levels. California American Water deserves fair compensation for its services and cannot be asked to subsidize costs the Commission deemed appropriate for recovery from customers.

5. Customer Notices

California American Water is amenable to additional customer notification via a separate mailer prior to the implementation of a surcharge assessed on Monterey County District customers.

PROOF OF SERVICE

I, Monica Trejo, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is California-American Water Company, 333 Hayes Street, Suite 202, San Francisco, CA 94102. On April 8, 2011, I served the within:

COMPLIANCE FILING OF CALIFORNIA-AMERICAN WATER (U210W)

on the interested parties in this action addressed as follows:

See attached service list

- (BY E-MAIL SERVICE)** By transmitting such document electronically from California-American Water Company, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of California-American Water Company for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.10(b) of the Public Utilities Commission of the State of California and all protocols described therein.

- (BY U.S. MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at California-American Water Company, San Francisco, California following the ordinary business practice. I am readily familiar with the practice of California-American Water Company for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on April 8, 2011, in San Francisco, California.

/s/ Monica Trejo

Monica Trejo

CPUC E-Mail Service List
A.10-09-017
(Updated March 21, 2011)

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U.S. Mail Service List
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(Updated March 21, 2011)

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