



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

**APPLICANTS' JOINT COMPLIANCE FILING
FOR THE REQUEST FOR DATA
DURING THE FEBRUARY 17, 2011 PREHEARING CONFERENCE**

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Dated: April 15, 2011

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

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.

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I. INTRODUCTION

Pursuant to the request of Administrative Law Judge ("ALJ") Walwyn at the February 17, 2011 Prehearing Conference ("2/17/11 PHC"), 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) and Apple Valley Ranchos Water Company (U-346-W) (collectively referred to as "Park") (together, "Applicants") respectfully submit this compliance filing providing data requested during the 2/17/11 PHC.

In addition, Applicants request an ALJ ruling that would authorize Applicants to file a Tier 2 advice letter to implement an interim surcharge to begin recovering 2008, 2009, and 2010 WRAM/MCBA amounts that, using the "first-in, first-out" ("FIFO") principle, will not otherwise be

recovered consistent with the financial accounting standard generally known as Emerging Issues Task Force (“EITF”) 92-7.¹

II. APPLICANTS’ RESPONSES TO DATA REQUESTED AT THE FEBRUARY 17, 2011 PREHEARING CONFERENCE

On February 10, 2011, the Applicants proposed a set of questions for review by ALJ Walwyn and the Division of Ratepayer Advocates (“DRA”). Those questions have been modified to reflect the further discussions that occurred during the 2/17/11 PHC.² Applicants’ responses to the questions are included herein, as well as in Attachments to this Compliance Filing.

- 1) **Estimated 2011 WRAM and MCBA Balances using actual 2010 consumption data, by district. The balance should be shown with separate columns for the WRAM and the MCBA.**

Please see Attachment 1.

- 2) **a. Actual versus adopted sales (in Ccf) by residential and non-residential customers by month for each district, and by tier, for 2008 (where applicable), 2009, 2010, and 2011 forecast. This data will also be provided in graph form. In deriving adopted monthly sales, companies will use the most recent 3-year historical data.³**

Please see Attachment 2a for the actual versus adopted sales for 2008, 2009, 2010, and 2011.

- b. For 2008, 2009, and 2010 balances, provide a variance analysis for those WRAM/MCBA areas in which there is a ten percent (10%) or greater variance between adopted versus actual net WRAM/MCBA**

¹ Applicants seek to recover 2008 and 2009 WRAM/MCBA balances by December 31, 2011, and to recover 2010 balances by December 31, 2012. See, e.g., Application at 3-4 for a description of EITF 92-7. This authorization would not apply to WRAM areas in which, using FIFO, an Applicant anticipates recovering net WRAM/MCBA revenues within 24 months of the end of an accounting period.

² Note that, in the February 10, 2011 Prehearing Conference Statement of Applicants Regarding Data Structure (“2/10/11 PHC Statement”), there was originally a Question 5 proposing an “analysis of usage in the following service areas, to the extent appropriate: in Montana for Park, company-wide for Cal-Am, and in Hawaii for Cal Water.” ALJ Walwyn removed this item from the data requirement list at the 2/17/11 PHC. 2/17/11 PHC Transcript at 114 (lines 5-6).

³ Note that this was originally Question 2 in the 2/10/11 PHC Statement. For clearer representation, this was renamed as Question 2a.

amounts. This should include a narrative on sales trends for 2008, 2009, and 2010, including the impact of wholesale water restrictions, conservation, drought, weather, economy and time of year, based on available information.⁴

Please see Attachment 2b for the variance analyses for Cal Am, Cal Water, and Golden State. The 10% threshold variance was not triggered for either Apple Valley's or Park's WRAM/MCBA areas.

- 3) **A comparison to the revenue recovery mechanisms of some municipalities, specifically East Bay MUD, Metropolitan Water, and SFPUC, including sales trends for years 2008, 2009, and 2010 and how the municipalities have addressed revenue shortfalls.⁵**

Please see Attachment 3.

- 4) **Analysis of energy companies' ERAM programs as compared to WRAMs and MCBAs. Discussion of how these energy companies have dealt with any big under-collections, to the extent determinable.**

It was noted during the January 24, 2011 Prehearing Conference that California's energy companies do not appear to have developed large undercollections in balancing accounts such as ERAMs, and that they have not requested surcharges at levels that are comparable (in relative terms) to those facing Applicants.⁶ Applicants' inquiry into this matter has not been exhaustive, but some factors that may help to understand the apparent discrepancies between the experiences of energy and water companies are discussed below.

Account Review and Amortization: As discussed in the Application in this proceeding, it appears energy companies are generally able to amortize regulatory accounts on an annual basis, making it less likely that the energy accounts will track high uncollected balances.

The Commission has incorporated other regulatory "checks and balances" that diminish the possibility of high balances. In adopting Energy Resource Recovery Accounts ("ERRA") for the large electric utilities, for example, the Commission established semi-annual proceedings to forecast procurement expenses, enabling the calculation of rates that more accurately reflect costs.⁷ In addition to

⁴ Note that this was originally Question 2a and 2b in the 2/10/11 PHC Statement, which proposed "(a) Variance analysis for adopted versus actual costs and revenues for 2008, 2009, and 2010 balances in districts with a ten percent (10%) or greater variance," and "(b) Narrative on sales trends for 2008, 2009, and 2010, including the impact of wholesale water restrictions, conservation, drought, weather, economy and time of year, based on available information". These two questions were combined to generate a new Question 2b because the consumption variance is the same as revenue variance.

⁵ 2/17/11 PHC Transcript at 116 (lines 3-12).

⁶ See, e.g., 1/24/11 PHC Transcript at 48 (lines 8-18) and Tr. 67-68.

⁷ D.02-10-062, *mimeo*, at 64. The Commission did not adopt the request of two utilities for monthly rate changes to prevent the growth of large account balances, but nevertheless "recognize[d] PG&E's, SDG&E's and Edison's concern that they can no longer finance a large under-collection for a period of time longer than a month or two and

an annual ERRA true-up to amortize accounts, the Commission required utilities to file an expedited 60-day application for a rate change, and account amortization, if a 4% trigger was reached.⁸ This trigger complemented the statutory mandate that such balancing accounts not exceed 5%.⁹ Further, the triggers were not calculated according to a utility's entire revenue requirement, but instead on a smaller amount, a utility's "actual recorded generation revenues for the prior calendar year excluding revenues collected for the Department of Water Resources."¹⁰ Finally, the utilities' procurement transactions were reviewed by Commission audit staff on a quarterly basis to ensure compliance with a Commission-approved procurement plan.¹¹

Use of Overcollections: The Commission has also made use of overcollections in energy balancing accounts to prevent rate increases or support of other public policies. For example, the Commission approved SDG&E's request to apply overcollections in its balancing or regulatory accounts to "offset the revenue requirement" for the decommissioning trusts for nuclear powerplants, making a rate increase unnecessary.¹²

Forecasting Differences: The econometric forecasting used for energy companies has historically been significantly more complex and precise than the forecasting used in water rate cases, bringing forecasted energy consumption much more in line with actual consumption. In a 1994 proceeding evaluating the financial and operational risks of water companies, the Commission described this difference in detail:

The Commission and water utilities since the early 1980s have used the so-called 'modified Bean method' in forecasting water sales. The Bean method measures three historic variables (temperature, rainfall, time trend) on an annual basis, with an observation period of from five to 13 years, in order to predict sales per customer in test years. The advantage of the Bean forecasts is that they are relatively simple. The disadvantage is that the estimates are rough and can be unreliable when an unmeasured variable (like drought) intrudes on normalized sales.

Econometric forecasting, which has been used by energy utilities since the 1970s, measures the Bean variables on a monthly, rather than an annual basis, and adds additional historic variables, such as seasonal variation, meter reading error and voluntary conservation. Observation periods can be shorter (from 4 to 9 years) because the method measures

recognize the importance of timely recovery of over-or-under collections of balancing accounts to their financial health and stability." *Id.*

⁸ *Id.* at 65.

⁹ Public Utilities Code Section 454.5(d)(3).

¹⁰ *Id.*

¹¹ D.10-07-049, Appendix A at 2.

¹² 2010 WL 3194654, *18-19 (D.10-07-047, Section 7.4.3.3). In 2009, the Commission also authorized the request of SDG&E and SoCalGas to apply overcollections in several balancing and memorandum accounts to charitable programs that "help pay electric and gas bills of customers experiencing temporary financial hardship." Resolution E-4251 (September 10, 2009).

more historic data more frequently. Moreover, factors like residual conservation (for example, permanent reduced use because of low-flow showerheads) can be calculated and added as variables to predict future sales.

Because it produces more accurate estimates of future sales than the Bean method, the econometric model can reduce utilities' risk of underestimating (or overestimating) sales revenue. DRA's witness stated that the method has not been used previously in water company rate cases because water sales were relatively stable until the rationing and conservation efforts of recent years.¹³

As a result of the greater accuracy with which energy demand has been forecasted, it is less likely that a balancing account intended to capture cost differences due to variable energy demand will lead to high balances.

- 5) **As requested by DRA, actual number of customers for each WRAM/MCBA area by revenue class and meter size for the most recent 5 years of recorded data (2006 – 2010).**¹⁴

Please see Attachment 4. (Please note that Golden State's data for this question is not available at this time, but will be submitted on Monday, April 18, 2011.)

- 6) **County unemployment data, county foreclosure data, and company production data,**¹⁵

Please see Attachment 5.

- 7) **Company data on shut-offs for non-payment (2008 – 2010).**

Please see Attachment 6.

- 8) **Company data on low income participation (2008 – 2010).**

Please see Attachment 7.

III. PROPOSAL FOR FIRST-IN, FIRST-OUT SURCHARGE

¹³ 55 CPUC.2d 158; 1994 WL 398458, *30 (D.94-06-033, Section 11.5). In addition, California Public Utilities Code Section 739.10 states that "[t]he commission shall ensure that errors in estimates of demand elasticity or sales do not result in material over or undercollections of the electrical corporations."

¹⁴ 2/17/11 PHC Transcript at 116 (lines 13-19).

¹⁵ For Questions 6 through 8, see 2/17/11 PHC Transcript at 114 (lines 25-28) through 115 (lines 1-8).

At the 2/17/11 PHC, ALJ Walwyn invited parties to address customer impact and rate shock issues, including support for or modification of a Joint Applicant's original proposal.¹⁶ Applicants respectfully request a ruling authorizing Applicants to file a Tier 2 advice letter for interim surcharges to recover those projected 2008, 2009, and 2010 residual shortfalls that, using "first in, first out" ("FIFO") calculations, will not be recovered consistent with the accounting guidance contained in EITF 92-7.¹⁷ The Commission could later affirm such a ruling in a final decision.

The requested interim surcharges, which would likely be less than those proposed in the Application due to the use of "first-in, first-out" accounting, would help to mitigate the rate shock that will otherwise occur in those WRAM areas with high balances. This authorization would not apply to WRAM areas in which, using FIFO, an Applicant anticipates recovering net WRAM/MCBA revenues within 24 months of the end of an accounting period. In Applicants' view, an ALJ ruling would be the preferred approach for accomplishing this, as compared to an interim Commission decision that would likely require several months for preparation, review, and adoption.

IV. CONCLUSION

Applicants respectfully submit the data herein in compliance with ALJ Walwyn's request for data during the February 17, 2011 Prehearing Conference. In addition, for the reasons described above, Applicants request issuance of an ALJ ruling allowing them to immediately implement an additional surcharge to recover those 2008, 2009, and 2010 WRAM/MCBA amounts that will not otherwise be recovered, using "first-in, first-out" accounting, consistent with EITF 92-7.

¹⁶ 2/17/11 PHC Transcript at 120 (lines 1-10).

¹⁷ Cal Water also requested this interim surcharge for 2008 and 2009 balances on January 12, 2011. Prehearing Conference Statement of California Water Service Company (U-60-W) (January 12, 2011) at 3-4. Applicants seek to recover 2008 and 2009 WRAM/MCBA balances by December 31, 2011, and to recover 2010 balances by December 31, 2012.

Respectfully Submitted,

/s/ THOMAS F. SMEGAL

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Dated: April 15, 2011

CERTIFICATE OF SERVICE

I hereby certify that on this date I served the foregoing "APPLICANTS' JOINT COMPLIANCE FILING FOR THE REQUEST FOR DATA DURING THE FEBRUARY 17, 2011 PREHEARING CONFERENCE" by electronic mail or U.S. Mail delivery on the **Service List for A.10-09-017** below:

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Executed this 15th day of April 2011, at San Jose, California.

/s/ THOMAS F. SMEGAL

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